FINANCIAL TIMES

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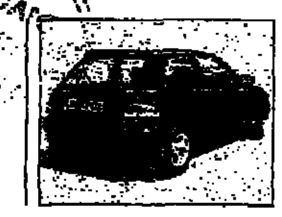

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WORLD NEWS

Indonesia's army chief dismisses parliamentary call for Suharto to quit

Parliamentary leaders in Indonesia demanded the resignation of President Suharto. However, General Wiranto, Indonesia's top military officer, dismissed the demand, raising the threat of confrontation between the armed forces and civilians. **Page 20; Call to delay debt talks, Page 8**

UN moves on war crimes
The United Nations is preparing to meet a world demand for human rights justice, with plans on the table for a permanent international criminal tribunal and discussions under way on a court to try genocide suspects from Cambodia. **Page 10**

Mideast peace still deadlocked
The US failed to break the deadlock in the Middle East peace process when US secretary of state Madeleine Albright met Palestinian Authority president Yassir Arafat. **Page 10**

Food labelling row looms
Brussels is heading for a clash with European Union members over labelling of genetically modified soya and maize. **Page 11**

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Kohl rouses party
German chancellor Helmut Kohl won the enthusiastic backing of his Christian Democratic Union after pledging to reverse the party's slump in popularity and lead it to victory in the country's general election. **Page 2**

EU progress accelerates
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Greek wages deal
Greece's Federation of Industry is to sign a pay deal with private sector unions which will keep alive the Socialist government's hopes of achieving year-end inflation of 2.9 per cent. **Page 2**

Egyptian police kill five militants
Egyptian security forces shot dead four Islamic militants in a town 160 miles south of Cairo, police said. A civilian died in the crossfire.

Cambodia poll threat
Cambodia's four main opposition parties threatened to pull out of the country's election unless conditions for a free and fair poll were put in place. **Page 8**

Retirement a mystery
Most Americans do not know that the retirement age for those now under 30 has been raised to 67, a Gallup survey shows. **Page 6**

BUSINESS NEWS

Suez Lyonnaise and Fortis launch Belgian takeover bids

Two takeover bids totalling almost $16bn were launched in Belgium yesterday. Fortis, the Belgo-Dutch insurance and banking group, made a BFr409bn ($11.2bn) offer for Générale de Banque. Simultaneously, France's Suez Lyonnaise des Eaux unveiled a BFr178bn offer for the 38.5 per cent it does not already own of Société Générale de Belgique. **Page 21; Observer, Page 19**

Worries about Russia's financial position and fears of a rouble devaluation forced a fourth day of heavy selling on the Moscow stock market. The benchmark RTS share index closed at 227.61, down 11.8 per cent. **Page 21; Lex, Page 20**

Seagram is considering proposals to float its Tropicana fruit juice business, and to sell its 11m shares in Time Warner, to finance its planned $10bn acquisition of Dutch music and film company PolyGram. **Page 21**

Banco Central Hispano has stolen a march on the Latin American franchises of its larger Spanish rivals Banco Bilbao Vizcaya and Banco Santander by developing a private banking strategy to service clients out of New York. **Page 22**

Artémis, the holding company of businessmen François Pinault, launched a full takeover bid for auctioneer Christie's International, having just bought 29 per cent. **Page 21; Comment, Page 27**

The Anglo-Swiss financial services conglomerate created by the planned $37bn merger of Zurich Group with the insurance and asset management arm of BAT Industries will incur exceptional charges of up to $1.4bn. **Page 22**

Olympic Airways faces a cash crisis after the Greek government's decision to end state guarantees on lending to loss-making public sector enterprises. **Page 3**

SPC, the Mexican telecoms company, has signed a letter of intent with Lucent Technologies to set up a national telephone wireless network for $700m. **Page 23**

Lower Saxony will retain a quarter stake in Salzgitter, Germany's second biggest steel producer it bought this year from industrial conglomerate Preussag. **Page 22**

Clariant, the Swiss chemicals company, is seeking shareholder permission to raise SFr1.5bn ($875m) of extra equity to finance strategic acquisitions. **Page 22**

The price of palladium – vital in making mobile phones, laptop computers and vehicle catalysts – has overtaken platinum. **Page 21; Commodities, Page 34**

Portugal raised Es131.4bn ($721.3m) from a global offering of 25 per cent of cement producer Cimpor. **Page 22**

AT&T announced a marketing pact with Internet service provider Yahoo! in an attempt to expand sales online. **Page 23**

Because of production difficulties, the Managed Funds in today's Financial Times contain last Friday's data.

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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US accuses Microsoft of being an illegal monopoly

Lawsuit alleges antitrust violations in pattern of predatory business practices

By Richard Wolffe in Washington

Microsoft, the world's largest software company, was yesterday sued by the US government for being an illegal monopoly in its bitter struggle with Netscape Communications, its internet software rival.

Backed by 20 states the government accused Microsoft of a wide range of antitrust violations in a pattern of predatory business practices over several years.

It asked a federal court in Washington for an immediate injunction to change Microsoft contracts with computer makers and internet service companies.

Drawing on evidence from internal Microsoft memos, the US government and 20 states sued the company for planning "an illegal conspiracy" with Netscape to divide up the market in internet browsers, which navigate the world wide web.

When Netscape refused to go along with Microsoft's plan in 1995, the company used its monopoly in Windows operating software to "cut off Netscape's air supply" by blocking its rival's access to the marketplace, the government alleges.

Joel Klein, head of the antitrust division at the US Justice Department, said: "Nothing we are doing here will or should prevent Microsoft from innovating or competing on the merits. What cannot be tolerated – and what the antitrust laws forbid – is the barrage of illegal, anti-competitive practices that Microsoft uses to destroy its rivals and to avoid competition on the merits."

At its heart, the lawsuit accuses Microsoft of abusing its monopoly in operating software to force other products on to consumers and computer makers.

The government argues Microsoft sought to crush Netscape when it realised that internet software could eventually undermine and replace its Windows operating system.

In a statement, Microsoft said the antitrust suits were "without merit" and vowed to fight them.

Perhaps the most damaging evidence unearthed by the Justice Department is a series of internal memos and emails charting Microsoft's strategy to squeeze out Netscape.

Bill Gates, chairman and chief executive of Microsoft, is quoted in an internal email as offering Intuit, the software company, $1m of business "favours" in exchange for switching from the Netscape browser to Microsoft's.

At a federal court in Washington, the government and states yesterday applied for a preliminary injunction forcing Microsoft to separate its browser from its flagship Windows operating software. If Microsoft refuses, the injunction would force the company to include Netscape's products alongside its own.

The injunction, if granted, would also allow PC manufacturers the freedom to install any software they choose. Microsoft is alleged to have forced its browser on all new computers.

Janet Reno, US attorney-general, said: "Microsoft has an excellent record of innovation. But we want to make sure that the field is open to the next Microsoft, the next great innovator who can help improve our lives and our economy – if they are given the opportunity."

Book thrown at Microsoft, Page 6
Government vs Big Business and Editorial Comment, Page 19

Janet Reno: wants to "keep field open to the next Microsoft" Picture: Reuters

Cold water poured on instant noodle fear

By Bethan Hutton in Tokyo

Japan's makers of instant noodles have taken out newspaper advertisements to reassure the public that eating noodles will not expose them to potentially harmful synthetic hormones.

Chemicals in the polystyrene bowls in which most instant noodles are sold have been linked to lower sperm counts, genital abnormalities and even violent tendencies in young men. They may also contribute to higher incidences of certain reproductive cancers in women.

The US National Institute of Environmental Health Sciences reported last month the bowls emitted endocrine-disrupting chemicals when they were exposed to hot water and oil.

The Japanese government has launched a study of the chemicals, known as environmental hormones.

Noodle sales have plunged after reports of the experiments. A telephone poll by the Japan Convenience Foods Industry Association earlier this month found that at least 30 per cent of consumers were avoiding cup noodles.

In the newspaper advertisements, the industry association disputes the findings of the institute's tests. The association said the tests did not reflect normal use of the products. Other tests had not found that chemicals were released from the polystyrene packaging.

Japanese consumers normally eat 3.2bn portions of cup noodles a year in a market that annually turns over Y500bn ($3.846m). They are a staple food in Japan, especially among young bachelors, students and salarymen, who pop into convenience stores for a bowl on their way home.

Instant noodles have never been seen as a healthy food, but most worries centred on excessive quantities of fat, salt and monosodium glutamate. Japan has only recently taken notice of environmental hormones, which have been widely discussed in the US and Europe for years.

Japanese manufacturers of reusable plastic tableware were forced to recall some plates and bowls sold to schools late last year after higher than permitted levels of bisphenol A, another suspected endocrine disrupter, were found in their products.

Tax move to hit Europe bank accounts

By Simon Davies in London

The European Commission is to publish a directive tomorrow that aims to ensure that some tax is paid on all income from bank accounts and securities held within the European Union by EU residents.

Investment bankers claim the proposal could seriously damage European capital markets and in particular the eurobond market.

Previous proposals to introduce a 15 per cent minimum savings tax were shot down in 1989 after opposition from the UK and Luxembourg. The new draft recommends a minimum 20 per cent witholding tax. This is collected on behalf of national governments by financial institutions holding the savings or securities. It is held by the governments unless investors prove they have already paid tax on the savings in another jurisdiction.

However, the draft introduces an alternative. Countries can instead provide information to other European tax authorities about interest payments to EU citizens resident in their jurisdiction. Banks handling the interest payments would supply the information.

A UK Treasury spokesman said it would still not agree to any compulsory witholding tax, but would be willing to consider seriously any proposals based on information-sharing.

Cliff Dammers, secretary-general of the International Primary Market Association, which represents international securities underwriters and distributors, described the proposed measure as "outrageous". "It has enormous implications for the markets and should be subject to broad consultation, instead of just being rushed through. In the worst case, this could drive the eurobond market offshore."

The Commission is anxious to put the directive to EU finance ministers as soon as possible. The European Parliament must then be consulted and the measure needs unanimous support from finance ministers. Luxembourg has previously threatened to vote against the proposals, but has said it would approve them if they were part of a wider harmonisation of corporate taxation in the EU.

A Commission spokeswoman said yesterday: "We do not expect any opposition of principle because this has already been agreed on December 1 [at a previous finance ministers' meeting], but we will have discussions on the detail."

The moves are part of a push to tackle widespread tax evasion, which has been helped by fiercely protected secrecy laws in some European banking jurisdictions.

The document argues that by focusing on EU-based individuals, it will limit the effects on eurobonds. But individual investors still account for 20 per cent of bond holdings, IPMA said, and most of these are European.

Lex, Page 20

Brussels and US end sanctions dispute

By Guy De Jonquières in London and Gerard Baker in Geneva

US and European Union leaders yesterday agreed a settlement of their dispute over US sanctions laws against investors in Cuba, Iran and Libya. The EU said the deal, as well as lifting threatened sanctions against Total, the French oil group, immediately cleared the way for other European energy companies to invest in Iran and Libya.

The agreement was endorsed by US president Bill Clinton, Tony Blair, the British prime minister, and Jacques Santer, European Commission president, at a summit in London. Mr Blair said the deal was "at least a basis for a lasting solution" to the two-year-old sanctions dispute and paved the way for closer US-EU trade and economic co-operation.

The intricate deal depends on Mr Clinton persuading the US Congress to amend sanctions legislation. He claimed yesterday that the deal underpinned Congress' objectives when it passed the sanctions legislation against Cuba, Iran and Libya.

Last week a number of senators, most notably Al D'Amato, the principal sponsor of the legislation, urged Mr Clinton not to grant a waiver of sanctions against the companies in the Iranian pipeline project. A senior administration official said yesterday Mr D'Amato and other opponents welcomed the news that European countries would take a tougher line with exports to Iran and Libya, but still felt the agreement did not go far enough. Officials also acknowledged that US companies would lose out.

Total had been investigated by the US state department since last autumn because of its involvement in a $2bn gas project in Iran.

Sir Leon Brittan, EU trade commissioner, said companies such as British Petroleum and Shell, which have been considering energy projects in Iran, could proceed without fear of being penalised. He called the deal "a highly satisfactory outcome".

Mr Clinton has undertaken to ask Congress to amend title IV of the Helms-Burton act, which authorises the US to deny entry visas to directors and shareholders of companies investing in assets in Cuba illegally expropriated by the Castro government.

The EU has accepted some US demands for tighter international discipline on the use of illegally expropriated assets.

Companies welcome deal, Page 11
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WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9052.16	(-43.84)
NASDAQ Composite	1833.19	(-13.58)
Europe and Far East		
CAC40	3945.31	(-44.92)
DAX	5342.85	(-50.29)
FTSE 100	5836.2	(-91.6)
Nikkei	15,384.47	(+141.61)
US Lunchtime RATES		
Federal Funds	5.62%	
3-mth Treas Bills: Yld	5.180%	
Long Bond	107⅞	
Yield	5.930%	
OTHER RATES		
UK: 3-mo Interbank	7¼%	(same)
UK: 10 yr Gilt	109.3281	(109.348)
France: 10 yr OAT	103.47	(103.48)
Germany: 10 yr Bund	107.06	(107.09)
Japan: 10 yr JGB	111.60	(111.62)
NORTH SEA OIL (Argus)		
Brent Dated	$14.76	(14.68)

GOLD		
New York: Comex	$299.60	(301.2)
London:	$299.05	(300.45)
EXCHANGE RATES		
Dollar		
New York Lunchtime		
£	1.6215	
DM	1.78885	
FFr	5.9925	
SFr	1.488	
Y	135.975	
London:		
£	1.6213	(1.6294)
DM	1.7892	(1.7814)
FFr	6.0025	(5.975)
SFr	1.489	(1.481)
Y	136.11	(134.08)
Tokyo Close		Y 135.48
Sterling		
DM	2.9008	(2.9025)

CONTENTS

Fighting Kohl rouses his party faithful

By Peter Norman in Bremen

Helmut Kohl won the enthusiastic backing of his Christian Democratic Union yesterday after pledging to reverse the party's slump in popularity and lead it to victory in the German general election on September 27.

The 1,001 delegates at the party convention gave the chancellor an unusually long 10-minute standing ovation, chanted "Helmut, Helmut" and cheered "Now we are off" after a two-hour speech in which Mr Kohl criticised the opposition Social Democratic party and Gerhard Schröder, its candidate, and mapped out his priorities for a fifth four-year term.

With unemployment currently running at 11.4 per cent, Mr Kohl said "work for all" was his party's top domestic policy priority.

In Bonn, Günter Rexrodt, the economics minister, said first-quarter economic growth was between 3.5 per cent and 4 per cent compared with the same period last year. He predicted growth this year would be near the top of the 2.5-3 per cent range forecast for this year.

But Mr Kohl warned that the recovery was not automatic. Recovery could be destroyed if an SPD-led government came to power and "turned back the wheel of history" by reversing his government's supply side-reforms limiting sick pay, curbing pension costs and relaxing job security, he said.

Germany would not attract investment and create jobs without enacting

The convention delegates gave him a 10-minute standing ovation and cheered 'Now we are off'

the comprehensive tax reform put forward by his government last year and blocked by the SPD in the Bundesrat, the second chamber of parliament representing the states.

The chancellor promised to improve the business climate for small and medium-sized companies by helping promote new businesses, research and development and venture capital.

He signalled a new approach to social security in which unemployed people refusing to take jobs would have their benefits cut. In addition, he promised a system to make low-paid work attractive by enabling social security recipients to take such work without losing all their benefits.

Mr Kohl also promised education reforms to improve schools and universities and make Germany better able to compete in the "knowledge society of the 21st century".

By contrast, he accused the SPD of wanting to turn Germany into a "leftwing republic". The developments in the state of Saxony-Anhalt, where the local SPD plans to govern with a minority administration "tolerated" by former communists, showed the opposition was not steering towards a "new centre but to the old left".

Mr Kohl was especially critical of Mr Schröder, accusing him of failing to support such historic developments as German unification and the European single currency.

Some of the most enthusiastic applause came as the chancellor addressed the issue of law and order, promising "no tolerance for criminals or acts of violence" and the expulsion of foreigners who abuse their status as "guests" in Germany.

But his speech as a whole was combative without being strident. Although punctuated by frequent applause, it was rarely emotional and often thoughtful.

● German tax experts began a three-day meeting yesterday to hammer out the latest estimates on public tax revenues, which are expected to rise this year but still fall short of expectations in key areas, Reuters reports from Bonn.

Participants in the meeting, being held in Bad Griesbach, a spa town near the Austrian border, played down reports of a new gap in tax revenues, pointing to strong economic growth.

Erwin Huber, Bavarian state finance minister, said he did not expect new estimates to deviate much from November's forecasts, which estimated 1998 tax revenues of DM814.2bn ($455bn).

Uphill battle: Helmut Kohl rallies CDU members at their convention in Bremen with promises of a fight-back against the SPD in the campaign for next September's election Reuters

Call for EU funds code of conduct

By Juliette Jowit in Cardiff

The head of the European industry body for regional development called yesterday for a code of conduct or tighter legal restrictions to regulate agencies and governments which ignore funding rules.

Christian Saublens, director of the European Association of Development Agencies (Eurada), said the European Commission needed to enforce existing laws more strictly to ensure fair play and prevent money-wasting by competitors.

"We have to have common rules at European level, and if people use EU money to attract an investment, that could not be to the detriment of another area already using EU money," he said. "You are just transferring money from one area to another, and as we are all European taxpayers we have a responsibility to make sure there's no duplication of money spent on investment."

In particular, Mr Saublens wants the Commission to ensure agencies do not exceed funding ceilings set for European grants, and to make national governments draw funding boundaries on the same lines as the EU so they do not distort the map of more needy regions.

The problems are becoming more acute as competition for foreign investment increases and the EU prepares to admit new members from central and eastern Europe. Enforcement at EU level is difficult and the Commission can act only if a case is referred to it, though complaints can be generated by press reports or rival agencies or companies.

Mr Saublens was speaking at a Eurada conference in Cardiff for more than 300 delegates from the EU and Eastern Europe.

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Cook tries to mend Turkish fences

By David Buchan, Diplomatic Editor

Robin Cook, foreign secretary of the UK, which holds the European Union's presidency, flies to Ankara today in an attempt to end months of severe strain in Turkey's relations with Europe.

Mr Cook will explore ways in which next month's EU summit in Cardiff can repair the political damage wrought at an EU summit last December in Luxembourg. He also aims to pave the way for Turkish ministers to attend a meeting next Monday of the EU-Turkish association council, a forum for regular dialogue between Turkey and the EU.

Omitted from the December summit's list of eligible EU applicants, Turkey took umbrage and snubbed an invitation to the EU's special Europe conference in March, which had been tailored as a consolation prize for Ankara.

Relations took a further dive with the EU's decision to start accession negotiations with the Greek Cypriot government of Cyprus, in spite of the refusal of the island's Turkish Cypriots to participate.

Greek Cypriot plans to deploy Russian missiles on their part of Cyprus this summer have raised tensions. General Ismail Karadayi, Turkey's chief of general staff, flew to Moscow yesterday to try to block the missile sale.

Anxious to soothe Ankara's feelings, Mr Cook commented yesterday: "Turkey matters to us, and is part of the Europe we are building."

The centrepiece of the EU's effort to put relations with Turkey on what Mr Cook called "a sound long-term footing" is the Brussels Commission's new proposal to widen the existing EU-Turkish customs union to include agriculture and services.

Ismail Cem, Turkish foreign minister, is understood to have indicated he would attend the May 25 association meeting in Brussels. But last-minute Greek-Turkish rows have wrecked such meetings before, and Greece has a potentially blocking "reserve" on what Mr Cook can say on the EU's behalf to Mr Cem next Monday.

Athens continues to veto an Ecu375m ($410m) package long set aside by the EU for Turkey to accompany the customs union.

"The most attainable objective of Mr Cook's visit is that he should at least leave Ankara with the understanding that everyone together should work for better EU-Turkish relations, and that includes Greece," said Ozdem Sandberk, Turkish ambassador to Britain.

Turkey has no chance of getting its money next Monday, UK officials said yesterday, but needs "to feel that progress over time on the money issue is possible".

NEWS DIGEST

INTEREST RATES LIKELY TO BE STABLE

Poland encouraged by 24% jump in exports

Polish exports soared by 24 per cent in the first quarter of this year despite an 8 per cent appreciation in real terms of Poland's currency, the zloty, since the start of this year. Figures from the central bank current account published yesterday showed a 24 per cent rise in exports in the first quarter from the same period last year, to $7.2bn, while imports grew more slowly at 17 per cent to reach $10.4bn.

However, despite a modest 4 per cent increase in the trade deficit to $3.2bn in the first quarter, the current account deficit grew by almost a third to $2bn as repayments on Poland's Paris club debt fell due at the end of March.

The encouraging trade figures will for the moment calm officials who have been arguing for interest rate cuts to ease foreign currency inflows causing the zloty to appreciate. Rather, Poland's Monetary Policy Council (RPP) will continue to concentrate on reducing inflation – running at an annual 13.7 per cent last month. Salomon Smith Barney analysts said yesterday that in the light of the latest inflation figures Polish interest rates would remain high and continue to attract foreign capital inflows. **Christopher Bobinski, Warsaw**

GREEK WAGES

Unions to sign two-year deal

Greece's Federation of Industry (SEB) will today sign a guideline wage agreement with private sector unions which keeps alive the Socialist government's hopes of achieving its year-end inflation target of 2.9 per cent.

The two-year agreement provides for nominal increases of 4.5 per cent this year and 2.8 per cent in 1999. An extra increase, due if inflation exceeds forecasts, would not be paid until 2000. This delay would assist Greece's effort to reduce inflation and the budget deficit to levels compatible with joining the European single currency in 2001.

Jason Stratos, SEB's president, said yesterday: "We believe that sectoral agreements being worked out over the next few weeks won't deviate significantly from the guidelines."

The government has tightened incomes policy this year, with nominal increases for public sector workers being held to 2.5 per cent. Managers at state enterprises face dismissal if they award additional increases. **Kerin Hope, Athens**

EMBARRASSMENT FOR RPR

Paris mayor's wife questioned

The leadership of the RPR, the Gaullist party founded as a vehicle for Jacques Chirac's presidential ambitions, suffered more embarrassment yesterday when police questioned the Paris mayor's wife as part of a corruption probe.

Xavière Tiberi, wife of Jean Tiberi, was questioned about an alleged false consultancy contract with the Essonne district council in the Paris region. Police also searched the mayor's Paris home.

The judicial inquiry centres on a number of RPR officials who are alleged to have used municipal payrolls to provide fake employment to party workers in Paris and the surrounding region – in effect a disguised form of funding to the party.

Mrs Tiberi's involvement is highly sensitive since she is known to have been a tireless helper of her husband, who was picked by Mr Chirac to succeed him when he moved from being Paris mayor to the presidency in 1995.

The affair risks tainting Mr Chirac himself. It also follows the disruption of the city administration by a political row between Mr Tiberi and his Gaullist party rivals which, if unresolved, could force a new mayoral election. **Robert Graham, Paris**

SINGLE MARKET LAWS

Adoption rate improves

European Union member-states have stepped up the rate at which they adopt single market laws, but some countries, especially in the Nordic area, are still showing faster progress than others, the European Commission said yesterday.

The "implementation deficit" – the proportion of EU laws that are not transposed into national legislation – fell to 18.2 per cent from 35 per cent in June last year.

Of the existing 1,368 single market laws, only 249 had not been turned into national legislation by all member states, according to a report presented by Mario Monti, single market commissioner, to EU trade ministers.

However, the report shows that some countries, notably Denmark, Finland, Austria, Sweden and Germany, have made better progress than others, including Belgium, Italy, Portugal, Luxembourg and France.

The Commission reported instances of "worrying delays" in implementation. Some rules due to have been adopted in 1993 are still pending. There has also been an increase in national technical rules resembling trade barriers.
Samer Iskandar, Brussels

FRENCH PILOTS

New pay strike warning

Three French pilots' unions announced plans yesterday for a new strike on May 24-25 to protest against a proposed pay cut by management.

The three unions, representing about 14 per cent of Air France's 3,200 pilots, earlier this month staged a one-day strike with similar demands.

The unions want Air France to limit pilots' flights to four a day and to drop the lower salary scale paid to new pilots since June 1997.

"Management must regain its sense of reality," the three unions said in a statement yesterday.

The unions said work conditions were becoming "unbearable" and were leading to a degradation of service on short and medium-length flights. The unions have also threatened to disrupt the June 10-July 12 football World Cup if their demands are not met. **AP, Paris**

RUSSIAN PIT STRIKE

Miners block Trans-Siberian

Striking Russian coal miners blocked a stretch of the Trans-Siberian railway for a fourth day yesterday, as a regional governor warned they were prepared to expand their protests.

Miners in the town of Anzhero-Sudzhensk have blocked the railway, diverting trains on to a route that is hundreds of kilometers longer. Aman Tuleyev, the governor of Kemerovo, a coal-mining region in central Siberia Tuleyev, said that miners from neighbouring regions planned to block more railways, which could paralyse train movement between Moscow and the east of the country.

Miners' protests also shook several other regions yesterday. In the Perm region in the Ural mountains, strikers blocked a highway connecting the cities of Kungur and Solikamsk, and halted traffic on the Northern Caucasian railroad near the southern city of Shakhty.

Dozens of mines throughout Russia have been shut since early May, when miners went on strike to demand back wages which sometimes run for more than six months. The government estimates they are owed a total of Rbs3.7bn ($600m). **AP, Moscow**

Milosevic risks final Yugoslav break-up

By Guy Dinmore in Belgrade

Slobodan Milosevic, Yugoslavia's president, orchestrated the dismissal of his prime minister and government yesterday, triggering a constitutional crisis that could lead to the final break-up of the federation.

Radoje Kontic, a native of Montenegro, which with Serbia is one of Yugoslavia's two constituent republics, lost a vote of confidence as prime minister in the upper house of the Yugoslav parliament.

He had fallen out of favour with Mr Milosevic by opposing his plan to impose a state of emergency in Montenegro last January as a way of blocking the inauguration of the tiny republic's new president, Milo Djukanovic, a Milosevic critic.

Mr Milosevic has refused to recognise Mr Djukanovic's election victory or even meet him. Mr Djukanovic, whose reformist policies have won him promises of financial aid from western governments, said in an interview published yesterday that Mr Milosevic would become "Yugoslavia's grave-digger".

Mr Djukanovic has repeatedly threatened to lead Montenegro to independence if Mr Milosevic persists with his illiberal, nationalist policies, which have kept Yugoslavia in the bad books of western countries.

Montenegro was alone among the six former Yugoslav republics in remaining loyal to Serbia and staying in the federation during its violent disintegration in the early 1990s. Although its population of some 650,000 is less than 7 per cent of Serbia's, Montenegro commands disproportionate powers in the federal Yugoslav assembly.

Mr Kontic was removed with the help of six deputies loyal to Momir Bulatovic, the former Montenegrin president defeated by Mr Djukanovic in disputed elections last October.

Montenegro is to hold crucial parliamentary elections on May 31 that will determine the republic's allocation of half of the deputies to the upper house of the federal Yugoslav assembly. Analysts predict Mr Djukanovic's ruling party will narrowly defeat the opposition led by Mr Bulatovic.

Diplomats said Mr Kontic's dismissal would give Mr Milosevic greater leverage over Montenegro.

Mr Milosevic received a further boost yesterday with the news that the US and its European allies had decided not to proceed with a potentially crippling investment ban on Serbia.

The measure was announced on May 9 to push Mr Milosevic into seeking a political settlement to the growing conflict with the pro-independence ethnic Albanian majority in Serbia's province of Kosovo.

Mr Milosevic met Ibrahim Rugova, political leader of the Kosovo Albanians, for the first time last Friday. Negotiating teams from the two sides are to meet on May 22.

In another bid by Mr Milosevic to shore up his waning powers, the federal communications ministry refused to grant broadcasting licences to 21 independent radio stations and 17 local television stations. One radio station that did get a licence is to be run by Mr Milosevic's son, Marko.

Serbian police remove Serb students demonstrating against a government decision to allow ethnic Albanians to use the Pristina university engineering faculty in Kosovo Reuters

Holding the line against national interests

By Wolfgang Münchau, Economics Correspondent

ECB watch

It is now only a matter of days – maybe two weeks – until the formal launch of the European Central Bank.

The six nominees to the ECB's executive board seem to agree on the broad outlines of policy. But one of the unresolved questions about the new arrangements is how they will work together with the 11 national central bank governors.

Together, they constitute the 17-strong governing council, the ECB's primary decision-making body. This governing council is responsible for setting interest rates in the Emu area.

One of the potential weaknesses of the new arrangements is the possibility of national coalition building: Like-minded central bank governors might collude to push their national interests to the detriment of the group as a whole.

Under the Maastricht treaty, the ECB must set policy with a view to the euro area as a whole and without prejudice to countries or regions. The monetary or inflation targets should be those of the zone as a whole.

The national governors' majority could make collusion tactics feasible, although there is no indication that this would happen, especially as economic conditions are fairly convergent. But the system does not appear to have sufficient safeguards against such practices.

At the Bundesbank, eight insiders are confronted with nine outsiders. At the European System of Central Banks 11 outsiders stand against only six insiders.

Furthermore, national central banks are backed up by large administrative machines. The Bank of France and the Bundesbank will continue to employee over 10,000 staff each, compared to 500 at the ECB.

Their economics departments are a formidable sources of data and economic analysis. National statistics are of higher quality than European statistics, although this may change over time.

Hans Tietmeyer, president of the Bundesbank, last week tried to reassure observers that the Bundesbank's council already took economic conditions in other Emu member states on board when formulating policy.

Unresolved is whether national governors will take the pan-Emu view when they face genuine policy dilemmas.

● The ECB's internet address is: *http://www.ecb.int*. The site is already operational, but currently only mirrors the site of the European Monetary Institute, the ECB's forerunner.

GREECE OLYMPIC FACES RESTRUCTURING

Airline hit by move on loan guarantees

By Kerin Hope in Athens

Olympic Airways, the struggling Greek state carrier, faces a cash crisis after the Socialist government's decision to end state guarantees on lending to loss-making public sector enterprises.

The airline has become a test case in the government's effort to accelerate structural reforms so that Greece can qualify for membership of the European single currency by 2001. The economy ministry says that if the current restructuring plan fails, Olympic will have to shut down.

Olympic last week obtained its first loan on commercial terms, raising Dr4bn ($13m) from two state-controlled banks to pay salaries for its 6,400 staff. Revenues declined sharply in April because of strikes staged by pilots and cabin crews in protest at the cost-cutting plan.

Company officials said $3m more was urgently needed to meet payments due on six leased Boeing 737 aircraft, which are to handle additional flights during the tourist season.

Olympic has used up much of its spare cash on paying benefits to more than 500 staff who chose to retire rather than accept a three-year pay freeze.

"Olympic is being asked for the first time to pay market rates on its borrowing requirements and to put up some of its assets as collateral," said an official at National Bank of Greece, the state-controlled bank which handles the bulk of lending to the public sector.

National Bank has started negotiations on a Dr20bn medium-term loan for Olympic in which international banks would participate. It would cover early payments on new aircraft which are due to be delivered later this year as well as working capital requirements.

The airline is relying on increased cash flow during the summer to keep flying. Revenues from its monopoly of ground handling for charter flights to the Aegean islands are set to rise, but bookings for Olympic flights have sunk to an all-time low, according to travel industry officials.

Olympic's survival will depend on how quickly Greece's transport ministry can revive a stalled agreement with the European Commission on providing a Dr35bn capital injection and state guarantees to finance new aircraft purchases.

The Commission agreed a rescue plan for Olympic in 1994 but successive Greek transport ministers failed to ensure it was carried out. The proposed capital increase, as well as $375m in state guarantees for fleet renewal, have remained frozen for more than two years.

Private sector pushes for right to print new euro notes

But banknote production looks like staying in the hands of state-controlled printers, writes **Peter Marsh**

Living with the euro

As Europe prepares to embrace its single currency, a battle is developing over how far the private sector will be allowed to compete for orders for printing the estimated 10bn new banknotes which will be required.

Two companies, De La Rue of Britain and Giesecke & Devrient of Germany, are lobbying to have a bigger share of the estimated $600m business, the biggest banknote printing project ever.

One of the ironies of the euro scheme, which is supposed to promote a freer and more transparent market around the continent, is that the production of the notes themselves looks like being settled behind closed doors and without a public tender.

"Banknote printing is one of the last protected markets in Europe," said Tim Rothwell, a printing analyst at Greig Middleton, a London stockbroker. "It seems unlikely that the bureaucrats at the European Central Bank will be motivated by the best interests of taxpayers."

The ECB, which is taking over the reins of its predecessor, the European Monetary Institute (Emi), will decide on the final designs for the euro banknotes, and the printing arrangements for them.

But while the Emi says that these matters are still open for discussion, most observers expect that the bank will give virtually all the orders for printing the notes to the European Union's state-controlled printing works.

The EU has 18 such organisations, answerable to the national central banks which, once economic and monetary union starts on January 1, will become part of the European System of Central Banks. They print 80 per cent of the banknotes currently produced by the EU.

"Can you imagine the Banque de France failing to organise things so that its own printing works misses out on the [euro] contracts?" asks one European banknote industry specialist.

It is expected that the euro orders will be placed from early next year. A large stockpile has to be ready in 2002, when they are due to replace existing banknotes.

The state dominance of banknote printing in Europe has for years irked De La Rue and G&D, which are by far the two biggest private sector players in banknote printing worldwide.

Between them, they account for about three-quarters of the world's $400m a year "open" banknote printing market, which is about 85 per cent of the total and excludes those notes made by state-owned organisations.

Both companies have been putting their case to the Emi for a greater share of the euro business, arguing that private sector efficiencies could significantly reduce the costs of printing. They argue that their international experience since the 1860s – which is when both companies started banknote printing – is enough to cope with security issues important in this type of work.

Manfred Beck, head of banknote printing at G&D, says that the flexible shift working at G&D's German plants in Munich and Leipzig could lead to worthwhile savings. John Burbidge-King, De La Rue's commercial director says that putting at least some of the euro contracts out to public tender would be "reasonable and practicable".

De La Rue argues it has plenty of spare capacity at its five print works around the world, in Britain, Malta, Singapore, Kenya and Sri Lanka.

One London-based analyst estimates that private sector flexibility expertise could easily knock 10 per cent off the printing costs for the euro, with no loss in quality.

A European central banker said he had some sympathy with the views of the private sector organisations on the grounds that some state-owned printing works were not particularly efficient.

All the EU countries – with the exception of Portugal and Luxembourg, which both use De La Rue to make their notes – have their own state-controlled printing works. Germany has gone further than most EU nations in involving the private sector. Printing the country's banknotes is split between G&D and the Bundesdruckerei, a public company in Berlin.

G&D and De La Rue are, however, hoping for changes in the next few years. Governments may well reconsider the logic of keeping open all the state-controlled print plants once Emu is up and running.

The two companies are thought also be quietly hoping that the effort to bring out the 10bn euro notes in time for 2002 will run into technical problems – in which case they might be called in for a bigger share of the work.

New offer in pay-TV row

By Ralph Atkins in Bonn and Samer Iskandar in Brussels

Kirch and Bertelsmann, the German media companies, have offered to let the country's regional cable companies compete in the distribution of their proposed digital pay-TV venture as part of efforts to avoid the European Commission blocking the project.

The latest concession, proposed to Brussels last week, appears to have raised the chances of the project winning approval. A ruling by the Commission is due by June 3.

Brussels described the revised plan as "a step in the right direction".

The project involves folding DF-1, a loss-making digital pay-TV company owned by Kirch, into Premiere, a successful analogue subscription service owned by Kirch and CLT-Ufa, the Luxembourg-based broadcasting group in which Bertelsmann has a 40 per cent stake.

The revised plans seek to overcome worries by Karel Van Miert, competition commissioner, about the new venture creating a dominant group in the German pay-TV market. Regional cable operators could offer Premiere alongside their own services or on particular terms to their own customers. But Premiere would also be marketed directly.

The companies are also believed to be ready to sell a stake in Beta Research, the company that controls the technology for decoder boxes necessary to view digital programmes.

Meanwhile, Otelo, one of Germany's new telecoms companies which also has 1.6m cable customers, has submitted proposals to Brussels under which a consortium would link up with Deutsche Telekom – the partly-privatised telecoms giant also involved in the project – in organising the marketing of the services via a trust company.

Russian reformer 'witch-hunt' victim

By Chrystia Freeland in Moscow

Alfred Kokh, a former deputy prime minister who has been caught up in one of Russia's highest-level corruption cases since the collapse of communism, says he is the target of a politically motivated witch-hunt.

"This is no less dangerous than the events of the Brezhnev era," Mr Kokh said in a telephone interview from New York. "It is a nightmare."

Mr Kokh, whom Moscow prosecutors charged this month with embezzling state property, said communist-dominated law-enforcement agencies were using their power to mount a covert attack against Russia's reformers.

"The procuracy is taking over the functions of government. They are entering the political process," he said.

"The procuracy and its cadres have not changed since the communist era. The prosecutors simply hate us. They are communists."

Moscow prosecutors allege that Mr Kokh fraudulently distributed 21 apartments to government officials, including himself. The charges carry a maximum penalty of 10 years' prison.

Mr Kokh, the former head of the state privatisation agency, acknowledged that government money had been used to buy 21 Moscow apartments for himself and fellow civil servants.

However, he asserted that the deal had been authorised by Anatoly Chubais, then a senior government official, and Victor Chernomyrdin, then the prime minister.

Mr Kokh said the apartments, including his own three-bedroom apartment in the heart of Moscow, were a legitimate remuneration for reformers who worked hard on low government salaries.

He believed that, if he returned to Russia, he would risk being arrested. Nonetheless, he said that this week he planned to come back to Moscow to launch a controversial book.

Last year Mr Kokh was paid $100,000 for the book, which is a history of Russia's privatisation drive. The Swiss company which purchased the book rights had connections with Oneximbank, a powerful Russian financial group which rivals alleged Mr Kokh had favoured during the privatisation process.

Mr Kokh said that at the time he sold the book rights, he was unaware of the links between the Swiss trading company and Oneximbank. However, he insisted that, even had he know of a connection, there would have been no impropriety.

"Let us say, for the sake of argument, that Oneximbank itself paid me the honorarium directly, although that was not the case," he said.

"Even if it were so, what would be the problem? ... I think a bribe is if you do something for me and I pay you money for it. That is a bribe. But those people who supposedly paid me a bribe are making a profit [on my book]. How can it be a bribe if it makes them a profit? It should be a loss."

Slovakia's central bank eludes tighter controls

By Robert Anderson

The Slovak government admitted defeat yesterday in its attempt to exert tighter control over the central bank and shelved its proposals until after national elections in September.

Miroslav Maxon, finance minister, said parliament had withdrawn from its agenda an amendment proposed by the government to change the central bank law.

"Together with the central bank we are working on a complex revision of the central bank law, but no such legislation will be approved during the current government's term in the office," he said.

The shelving of the proposals reflects strong domestic opposition both inside and outside parliament, but also the need to reassure foreign investors as Slovakia is launching the first tranche of a $1bn eurobond.

The government's proposals would have let it appoint half the bank board members, control its budget by transferring approval from the board to parliament, and force it to increase its financing of the growing government budget deficit.

The proposals were widely viewed as an attempt to soften the central bank's tight monetary policy before the elections. The policy has made financing the government budget deficit expensive, with domestic yields of more than 25 per cent. This has led the government to seek financing abroad.

In its defence, the bank had warned that the proposals would drive up inflation and weaken the currency. Its fears were echoed by credit rating agencies such as Moody's.

Earlier this year the government changed tack after opposition from within the coalition and began negotiating with the bank.

In an interview then, Vladimir Masar, bank governor, said the proposal to control the bank's budget was now dead, but discussion was continuing on the other proposals. "I think there is a space to look for a compromise," he said.

Armenian diaspora carries some clout

The former Soviet republic is now the third largest recipient of US aid per capita, writes **Selina Williams** in Yerevan

Armenia's highway from the borders to Nagorno-Karabakh is oddly enough just that – a smooth, unpotholed and safe road with signs marking hairpin turns, and barriers on steep curves.

The $10m road, an anomaly in a region of battered and frequently unusable thoroughfares, was funded by contributions from the Armenian diaspora, an estimated 6m Armenians living abroad, and is testimony to their power to redraw the map with their significant financial and political support.

"Without the diaspora, no one would know or care about Nagorno-Karabakh or Armenia: it would have become just another former Soviet republic with no prospects," said Arki Vartanian, acting director of the Yerevan office of the Armenian assembly of America.

The organisation has lobbied the US Congress on Armenian issues so successfully that Armenia is the third largest recipient of US aid per capita after Israel and Bosnia.

The diaspora's impact is felt throughout Armenia, a country of some 3.5m, and is visible in every sphere, from aid to business to politics. Last year, Armenia received over $350m from the diaspora, some $100m more than in 1996 and $180m more than Armenia received in US aid.

The diaspora's influence is expected to grow, thanks to Armenia's newly elected president, Robert Kocharian, who has promised Armenians living abroad dual citizenship and a greater role than the previous president allowed.

"Armenians, whether they live here or abroad, have to feel like fully fledged citizens," Mr Kocharian said in an interview after the elections. "It's important we create the conditions for the diaspora to participate in business here."

It is not just the large projects funded by contributions from Armenians abroad that make a difference. About 85 per cent of foreign investors in Armenia are from the diaspora. Though many of them are small investors, buying up privatised cafes and restaurants, the effects are visible and the examples numerous.

Thanks to Watche Manugian, a British multi-millionaire who put up most of the capital to establish a branch of Midland Bank, Armenians have western standard banking facilities and will soon have an insurance company.

Armenia's foreign cousins bring something more valuable than money: they introduce western know-how and business experience in a form easier to grasp because from a familiar source.

Ultimately, it is the smaller investments of time and energy that have the most direct effect. Nina Hovnanian, a wealthy New York Armenian, opened a small workshop in Yerevan three years ago for her line of designer clothes and home furnishings which she then exports to the US. The decision to come here, Ms Hovnanian says, was only partly financial.

"It's much cheaper for me to have the work done here rather than in the US," says Ms Hovnanian, who employs five people to do the beadwork and embroidery on her designs. Her employees earn over $400 a month, a princely sum in this country where average salaries are below $100.

"But cheap production is not the only reason to be here," says Ms Hovnanian, who plans to sell her New York penthouse and buy a flat in Yerevan. "I feel so comfortable here, as if I'm at home and surrounded by family."

The Yum Yum Donut in Yerevan, one of many such cafés started by the Armenian diaspora Ruben Mangasaryan/Patker

Like most Armenians from the diaspora, Ms Hovnanian's grandparents fled what was western Armenia, now eastern Turkey, after the 1915 genocide wiped out some 1m people. The trauma has left its mark on subsequent generations and made them fiercely protective of all Armenian territory, particularly Nagorno-Karabakh, the mainly Armenian populated region within oil-rich Azerbaijan and the scene of a six-year war for control of the territory.

Diaspora money, often funnelled through the nationalist political organisation Dashnaktsutyun, provided crucial support during the war between Nagorno-Karabakh and Azerbaijan. Many Armenians living abroad flew into the region to help their compatriots.

Many of the diaspora were later scared off after the previous president, Levon Ter-Petrossian, outlawed the Dashnak party, an organisation with enormous clout abroad, three years ago, and imprisoned the leaders on charges of terrorism.

Mr Kocharian, 43, has been quick to embrace the power of the diaspora, especially after ruling out compromise on any Karabakh peace deal, a stand that will probably cut the country out of any potential pipeline deals and further isolate Armenia from its neighbours and natural trading partners Turkey and Azerbaijan.

One of Mr Kocharian's first moves as acting president was to free the imprisoned Dashnak leader, a signal well received by the diaspora. Within a few days Kirk Kerkorian, the US-based multimillionaire, announced a $100m fund for Armenia.

"Kocharian's definitely been cultivating the diaspora," says one western diplomat. "He obviously believes the only way to make Armenia prosperous is by attracting foreign investors. They won't come here unless they have a vested interest in the place."

Brussels to spur movement of goods

By Samer Iskandar and Michael Smith in Brussels

European Union ministers voted unanimously in favour of new single-market legislation yesterday, removing obstacles to cross-border trade among members.

The agreement, in response to incidents such as the recent strikes by French lorry drivers, gives the European Commission wider powers to demand that member states take "necessary and proportionate measures" to remove such obstacles.

The French strikes of 1996 and 1997 paralysed the French road network and caused heavy losses to road hauling companies and non-French exporters whose products were transported through France.

Under yesterday's resolution, member states undertake "to do all within their powers... to maintain the free movement of goods and to deal rapidly with actions which seriously disrupt the free movement of goods".

Requests by the Commission for action against disruption will have to be answered by the member state within five working days. Within this time limit, governments must tell the Commission – and other member states – of the measures taken to remove obstacles.

The text, however, is a toned-down version of proposals put forward last year by the Commission. Several states argued that these were incompatible with national laws protecting workers' right to strike.

The final agreement says intervention must not "restrict or adversely affect... the right or freedom to strike as recognised in the member states".

Separately, ministers made progress towards reaching agreement on a draft resolution for a European company statute that would enable multinational companies to set up a single corporate identity in the EU.

LEGAL NOTICES

NOTICE TO SHAREHOLDERS OF MLH REALTY INVESTMENTS VI N.V.

Notice of the Annual General Meeting of Shareholders of MLH Realty Investments VI N.V. (the "Company") is hereby given. The meeting is to take place at 10:00 a.m. on May 29, 1998, at the registered office of the Company, 14, John B. Gorsiraweg, Curaçao, Netherlands Antilles. The agenda of the meeting is set forth below.

AGENDA
Annual Meeting of Shareholders of MLH REALTY INVESTMENTS VI N.V.

1. Report by Board of Supervisory Directors on the course of business of the Company and on the administration conducted during the fiscal year ended December 31, 1997.
2. Discharge and subsequent re-election of Messrs. Jack A. Cuneo, Robert F. Aufenanger and James V. Caruso as members of the Board of Supervisory Directors.
3. Report by the Board of Managing Directors on the course of business during the fiscal year ended December 31, 1997.
4. Presentation of the Net Result of the fiscal year ended December 31, 1997.
5. Confirmation and adoption of the Balance Sheet and Profit and Loss Account for the fiscal year ended December 31, 1997 and as presented in the report of the accounting firm of Ernst & Young LLP dated May 13, 1998.
6. Discharge and subsequent re-election of the Board of Managing Directors.
7. Selection of independent auditors.

Shareholders, by executing the subscription agreement for their shares have executed a discretionary proxy in favour of Yvomante Corporation N.V., authorizing Yvomante Corporation N.V. to vote the investor's shares. This proxy may be revoked either personally at the General Meeting of Shareholders or by written notice to Yvomante Corporation N.V., 14 John B. Gorsiraweg, Curaçao, Netherlands Antilles, received prior to such meeting. Shareholders have the opportunity to instruct Yvomante Corporation N.V. as to the voting of their shares by writing to Yvomante Corporation N.V. at the above address.

MLH REALTY INVESTMENTS VI N.V.
By: MeesPierson Trust (Curaçao) N.V.
Managing Director

هدايا من الأهل

هكذا من الأول

Brussels to spur movem of goods

Making strengths stronger.

We already have the edge. Now on the way to the No. 1 position in Europe.

The company.

Mannesmann operates in Telecommunications, Engineering, Automotive and Tubes & Trading. All sectors are consistently managed with a value-driven approach. Our yardstick for measuring value creation, the return on gross operating assets, reached 10.3 per cent in 1997. We have committed ourselves to reach the 15 per cent mark in the year 2000. Our medium-term objective is to reach a 20 per cent return.

Telecommunications – growing across borders.

D2 PRIVAT

Thanks to D2, Arcor and our participations – Omnitel and Infostrada in Italy, and Cegetel in France – we're well on our way to becoming the leading private telecom provider in Europe. In digital mobile telecommunications, D2 is already market leader in Germany. Today, the Telecommunications segment generates the Group's biggest earnings contribution.

ARCOR

Your advantages.

With Arcor and D2 we aim to offer all the advantages of an integrated communications company and are already realizing marketing and cost synergies for the benefit of our customers. Arcor runs a high-performance, full coverage wireline network, reaching the heart of every city in Germany. Building on the strength of D2, Mannesmann has consistently exploited the opportunities of today's Information Age. Our aim? To further sharpen our European edge.

Engineering – a top place in the world market.

With Mannesmann Demag, Mannesmann Dematic, Mannesmann Rexroth and Krauss-Maffei, we rank among the world's leading suppliers in mechanical engineering. Mannesmann Engineering is No. 1 in hydraulics, material handling and plastics machinery. We aim to optimize our product portfolio to enhance profitability and secure future growth.

Automotive – making cars more intelligent.

VDO and Sachs are innovative partners to the automotive industry. Sachs ranks among the leading global suppliers of chassis and powertrain components and systems. VDO is internationally recognized as an expert in the fields of integrated electronic information and control systems. Through its acquisition of Philips Car Systems, VDO with its new Car Communication division is poised to become one of the world's premier providers of integrated information, navigation and traffic telematics systems. Seizing every opportunity to boost current value, we aim to forge ahead with the internationalization of our Automotive sector and to strengthen our systems expertise.

SACHS

VDO

Mannesmann's strengths.

- Strong commitment to value-driven management.
- Telecommunications:
  - German market leader in digital mobile telecommunications.
  - Leading private integrated provider in European telecommunications.
- Automotive and Engineering: Outstanding global position.

Tubes & Trading – effective partnership strategy.

The Tubes & Trading sector produces and markets steel tubes for every application. In order to bolster our market position and improve our cost base, we have been incorporating all major product areas into cooperative alliances since the early nineties. The latest and most significant step in this direction is our joint venture with the French group Vallourec for seamless tubes.

Mannesmann – working for your future.

mannesmann

http://www.mannesmann.com

Justice and twenty US states throw antitrust book at Microsoft

The US software giant has been told to: ☐ Stop 'exclusionary and restrictive' practices; ☐ Remove 'competitive shackles' on PC manufacturers; and ☐ Drop 'exclusionary' agreements with internet service providers and online publishers

By Louise Kehoe in Seattle

The US Justice Department and 20 US states plus the District of Columbia charged in their antitrust lawsuits yesterday that Microsoft, the world software leader, had "engaged in anti-competitive and exclusionary practices".

These were "designed to maintain its monopoly in personal computer operating systems and to extend that monopoly to internet browsing software".

The Justice Department complaint alleged that:

● In May 1995, Microsoft executives attempted to persuade Netscape Communications, a pioneer of internet software, not to compete with Microsoft and to divide the browser market, with Microsoft making software for users of Windows and Netscape becoming the sole supplier of browsers for non-Windows computers.

Netscape refused to participate.

● Microsoft forced personal computer manufacturers to install its browser, Internet Explorer, as a condition of obtaining licences for the Windows 95 operating system.

● Microsoft now intends to tie licences of its Internet browser software to its new Windows 98 operating system, the successor to Windows 95.

● Microsoft is misusing its Windows monopoly by requiring PC manufacturers to agree to conform to a uniform "first screen" specified by Microsoft.

This determines the images that all PC users see when they turn on their computers. Microsoft's restrictions forbid any changes that would remove from Microsoft's browser or add to the competing software in a more prominent manner.

● Microsoft has entered into anti-competitive agreements with the largest online services, such as America Online, as well as internet service providers. In return for promoting these services on Windows, these companies have agreed not to promote Netscape's browser softare.

'We believe these lawsuits are without merit and will hurt consumers,' Microsoft said.

Although Microsoft has sought to modify some of these agreements the modifications are themselves unlawful, because they still restrain competition, the Justice Department said.

The antitrust regulators sought an immediate court order forcing Microsoft to stop these alleged "exclusionary and restrictive" practices.

Joel Klein, the head of the Justice Department antitrust division, said the injunction could be obtained in time to "give consumers greater choice in the near future".

Janet Reno, the US attorney-general, said: "Consumers and computer manufacturers should have the right to choose the software they want installed on their personal computers. We are acting to preserve competition and promote innovation in the computer software industry."

Regulators did not attempt to obtain an order halting shipments of Windows 98.

This, they said, would have limited consumer choice. Instead, the Justice Department demanded that:

● Microsoft either remove its own internet browser from Windows 98, a new version of the Microsoft PC operating system. Alternatively, Microsoft could distribute with each copy of Windows 98 a copy of Netscape Communications' rival internet browser.

● Microsoft end its practice of forcing PC manufacturers to install the company's internet browser as a condition of installing Windows on their products. Users should have a choice of browsers.

● Microsoft should remove the "competitive shackles" placed on PC manufacturers that prevent them from controlling the "opening screen" that appears when a PC is turned on.

● Microsoft must drop "exclusionary" agreements with internet service providers, online services and internet publishers that force them to promote Microsoft products.

In addition, the states charged that Microsoft had leveraged its market power to extend its hold over the market for business applications.

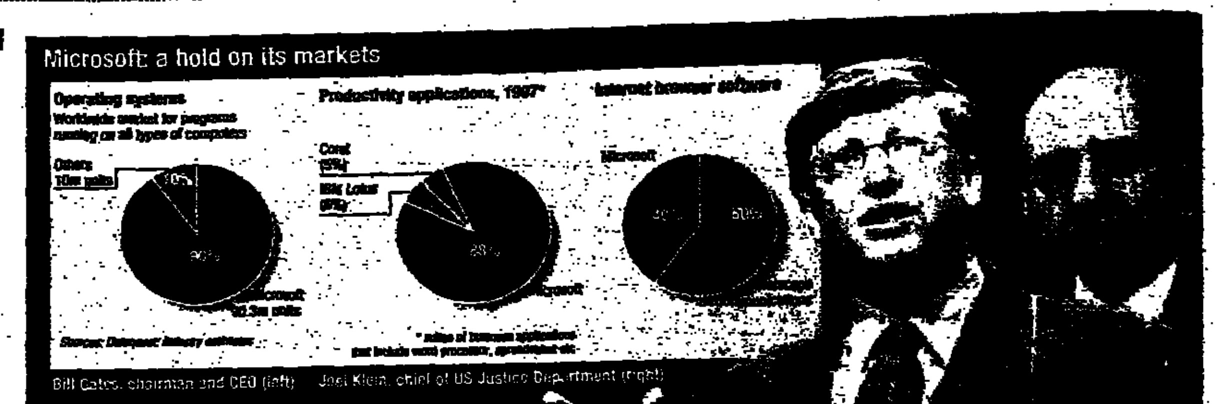
The company forced PC makers to install Microsoft Office, its range of business applications, the states' allege in their lawsuit.

Microsoft internal memos, obtained by the Justice Department during its investigation, were quoted throughout the complaint.

The government argued that these documents demonstrate that Microsoft believed it could not win the "browser war" with Netscape through competition on the merits of its product and instead aimed to use the Windows monopoly to "tilt the playing field".

For example, Microsoft's Christian Wildfeuer wrote on in February 1997: "It seems clear that it will be very hard to increase browser market share on the merits of IE4 [the latest version of Microsoft's internet browser alone. It will be more important to leverage the OS [operating system] asset to make people use IE instead of Navigator."

In a statement from its Redmond, Washington, headquarters, Microsoft said the antitrust suits were "without merit" and vowed to fight them in court. "We believe these lawsuits are without merit and will hurt consumers," the company said.



Bill Gates, chairman and CEO (left) Joel Klein, chief of US Justice Department (right)

Brussels gives way for 'faster' US investigation

The European Commission yesterday said it was co-operating closely with the US Justice Department's investigations of Microsoft, Samer Iskandar reports from Brussels.

However, European competition authorities do not plan to take any separate action. A Commission official said the Justice Department was in a "better position" to deal with the issue.

If Microsoft had broken any undertakings regarding browser software, he said, the US could act much faster than the Commission as this would constitute contempt of court in the US.

Any potential procedure by Brussels would be more cumbersome, he said.

After an investigation the Commission could issue a "negative decision" – a formal condemnation – paving the way for a fine and possibly halting distribution of the software in EU countries. This could "take years".

The Commission was relying on Microsoft having "the common sense" to apply in Europe any measures agreed with US anti-trust authorities, he added.

Under EU law the Commission can investigate the conduct of non-EU companies with large sales in EU member states.

Chronology of Microsoft's battles with antitrust regulators

● June 1990 Federal Trade Commission launches antitrust investigation of Microsoft

● July 1993 FTC deadlocked on whether to bring charges against Microsoft

● Aug 1993 US Justice Department takes up the case, launching its own investigation

● Sept 1993 European Union competition authorities launch investigation

● July 1994 Microsoft and Justice Department sign consent decree to settle antitrust issues. Microsoft agrees to modify its contracts with PC manufacturers. Microsoft wins concession that it is not prohibited from developing "integrated products"

● Aug 1995 Consent decree ratified by a federal court

● Sept 1996 Justice Department starts investigation of Microsoft's marketing practices for its internet browser

● Oct 1997 Justice Department files lawsuit charging that Microsoft has violated 1995 consent decree by bundling internet browser with Windows 95. Microsoft claims these are "integrated products"

● Dec 1997 Court issues injunction forcing Microsoft to offer "browser-less" version of Windows 95. Microsoft files appeal

● May 12 1998 Appeals court rules that injunction does not apply to Windows 98. Sun Microsystems seeks preliminary injunction against Windows 98. Texas pulls out of multi-state antitrust investigation of Microsoft

● May 15 Justice Department agrees to postpone suit against Microsoft pending last-ditch negotiations

● May 16 Negotiations break down

● May 18 Justice Department and 20 states file charges against Microsoft

'High rate of ignorance' over US social security

By John Authers in New York

Most Americans are ignorant about the social security system, and do not even know that the retirement age for those now under 30 has been raised to 67, according to a Gallup survey to be published today by Paine Webber, the New York-based brokerage.

The survey is to be released before today's publication in Washington of a "21st Century Retirement Plan" by the National Commission on Retirement Policy, a bipartisan committee of legislators and industry leaders.

The plan is expected to call for a further increase in the retirement age to 70, and for employees to be required to pay a part of their payroll tax for social security into individual investment accounts.

Donald Marron, Paine Webber's chief executive and a member of the committee, said that without "significant changes" in the way social security security was managed, the retirements of the post-war "baby boom" generation would "put a tremendous strain on the system".

He said it was "imperative that Americans fully understand the trade-offs associated with varying proposals, which makes education crucial to any long-term solution".

He added that problems with education varied across the ages, and that the group had proposed differing plans for those above and below the age of 45. Beyond education, he said the fund management industry had a duty to produce products that were simple, and at a cost low enough to ensure that even those making small contributions could benefit from them.

'Most Americans will be saving very small amounts'

"We've got to recognise that the majority of Americans will be saving very small amounts, and that means these resources have to managed at very low cost, with very simple choices."

According to the Gallup poll, only 12 per cent of Americans under the age of 30 expect to receive all or most of the benefits to which they are entitled under social security, compared with 21 per cent of those aged between 30 and 49.

Only 6 per cent knew that 67 was now the retirement age, while two thirds believed it was 65 or younger. Ignorance on this point was evenly spread across age groups, and was common to both men and women.

Most viewed social security as a tax, 60 per cent said they had "no idea" how much they paid, and only 10 per cent said correctly that contributions were in a band between 10 and 15 per cent.

Demographic projections suggest the US could become a nation of net "dissavers" as early as 2005. This will put heavy pressure on the social security system in the following decade.

Twists in murder case may embarrass Menem

By Ken Warn in Buenos Aires

Argentine businessman Alfredo Yabrán was on the run yesterday after a judge ordered his arrest in connection with the January 1997 murder of news photographer José Luis Cabezas.

The latest twists in the case could prove highly embarrassing for the government of President Carlos Menem. Mr Yabrán is allegedly linked with the highest echelons of political power.

Police raided Mr Yabrán's Buenos Aires suburban home and 14 other properties over the weekend.

The murder, along with a growing list of high-profile corruption cases, involving both the ruling Peronist and opposition Radical parties, have led some local commentators to believe Argentina is on the brink of an Italian-style crusade against corruption and impunity.

The arrest order came after the ex-wife of Gustavo Prellezo, the former policeman accused of carrying out the murder, testified that her former husband said he had worked for Mr Yabrán and the businessman had instigated the killing.

Mr Yabrán has repeatedly denied any involvement. His lawyers said he was the victim of a political conspiracy led by Eduardo Duhalde, governor of Buenos Aires province.

Mr Duhalde, they allege, is desperate to bring the case to trial to enhance his political prestigeand wrest control of the Peronist party from Mr Menem.

Corruption fight was 'possible, but not probable'

Mr Cabezas's murder, with its echoes of the political violence of the 1970s, stunned Argentines. His body was found bound and shot in his burnt-out car. In 1996 the photographer covertly took some of the first published photographs of the reclusive businessman.

Mr Yabrán has been involved in controversy before. In August 1995 then-economy minister Domingo Cavallo alleged in Congress that Mr Yabrán was a mafia boss.

Mr Cavallo has accused the government of initially drafting rules for the privatisations of the state postal service and the airports in ways that would entrench Mr Yabrán's interests.

The businessman denied the accusations. Last December a group of postal, distribution and airport services companies allegedly controlled by Mr Yabrán was sold to US-backed private equity fund The Exxel Group for $605m.

An onslaught against corruption and impunity was "possible, but not probable", said political analyst Rosendo Fraga.

Along with current corruption cases, such as the trial for embezzlement of former Radical governor of Córdoba province, Eduardo Angeloz, it could benefit the presidential candidacy of Graciela Fernández Meijide, he said. Her Frepaso party, allied with the Radicals, is so far untainted by corruption allegations.

NEWS DIGEST

BRAZILIAN PRIVATISATION

Telephone sell-off doubts eased as curbs ruled out

The Brazilian government has removed two big doubts over privatisation of the country's telephone network by announcing that no limit will be placed on foreign companies taking part in the sale, due to begin in July, and that bidding consortia will not be obliged to include a telecoms operator.

The decision, published yesterday, confirmed indications given last week by Fernando Henrique Cardoso, Brazil's president, that restrictions imposed on previous sales would be lifted. It was seen as an attempt to maximise revenues from the sale in response to the higher cost of finance following the Asian crisis. Analysts expect the sale to raise about $20bn.

Both restrictions applied to consortia taking part in the recent sale of so-called B-band cellular operating licences to compete with A-band services offered by the public sector. Foreign companies were limited to 49 per cent of B-band licences. The limits will apply, however, to consortia applying for operating licences to compete with the privatised network, to be offered once the sale is completed.

The network is due to be restructured into 12 operating companies before the sale. The communications ministry plans to issue tender documents on May 29 and accept bids on July 15. **Jonathan Wheatley, São Paulo**

CHILE POLLUTION

Santiago smog emergency

Santiago's authorities have decreed a state of environmental emergency in the Chilean capital as freak warm weather continues to worsen the city's winter smog. Classes in nursery and primary schools in three of the worst-affected areas have been suspended. While the emergency lasts, only two of every 10 private cars without catalytic converters can be used between 6am and 9pm. Public transport and goods vehicles are similarly restricted.

Smog is a regular feature of life in Santiago during the autumn and winter months from May to September, when contaminants are trapped in the streets by a layer of cold air above the city. The mountains that ring the city also block out the winds, so the only, brief, respite comes from occasional rain.

Dust particles from unpaved roads and building sites are a significant pollutant, while the other main contaminant is ozone, produced by the reaction between sunlight and nitrous oxide gas from car engines. Santiago was declared "ozone-saturated" in 1996. **Imogen Mark, Santiago**

DOMINICAN REPUBLIC

President loses ground in poll

President Leonel Fernández of the Dominican Republic faces a difficult task in implementing a range of economic and constitutional reforms after the failure of his centrist Liberation party to gain control of Congress in legislative elections at the weekend.

Preliminary results indicate that the social democrat Revolutionary party has strengthened its control of the legislature, taking 25 of 30 Senate seats and at least 100 of 149 seats in the chamber of deputies. The party also took control of most of the 115 municipalities contested at the weekend. Its strong showing came a week after the death of its leader, José Francisco Peña Gómez.

Mr Fernández, who became president two years ago, has been unable to get legislators from other parties to approve most of his proposals. These include the privatisation of several state enterprises, mainly the power company, and constitutional changes which would allow presidents to stand for a consecutive term.

The new legislature will be installed in August, and the president will seek alliances in an effort to get approval for his proposals, according to government officials.

Without assured support in Congress, however, Mr Fernández will be hard pressed to maintain expansion in the economy, which grew last year by 8.2 per cent, following 7.3 per cent growth in 1996. **Canute James, Kingston**

Displaced peasants get new start on drug baron's estate

Part of the playground of Pablo Escobar has been handed over to victims of Colombia's violence, writes **Adam Thomson**

Ten years ago, Hacienda Nápoles was the venue for multi-million-dollar cocaine deals and the caprices of Colombia's now deceased drug lord, Pablo Escobar. Elephants, rhinoceroses, hundreds of gazelle and a Tibetan yak – among other creatures – grazed on the extensive estate. Above the main entrance, Escobar displayed a small aircraft in which he allegedly made his first cocaine delivery to the US. The 7,000-hectare country residence came to embody the spirit of the country's decadent drug wealth.

Today, part of the hacienda has become a showpiece of a different kind. Using the December 1996 Asset Forfeiture Law, which enables the authorities to expropriate properties and goods acquired with illicit funds, the Colombian government last month handed some 500 hectares of Hacienda Nápoles to 15 families who until recently were landless victims of the country's violence.

"We wanted to turn the history of Hacienda Nápoles around 180 degrees so that what at one time served to promote crime can now be used to promote a project for the lives of needy people," said César Manuel García, who advises the president on the issue of displaced people.

"Receiving this land represents a new start for us," said María Dora Isaza, the mother of one of the families that now inhabit part of the infamous hacienda.

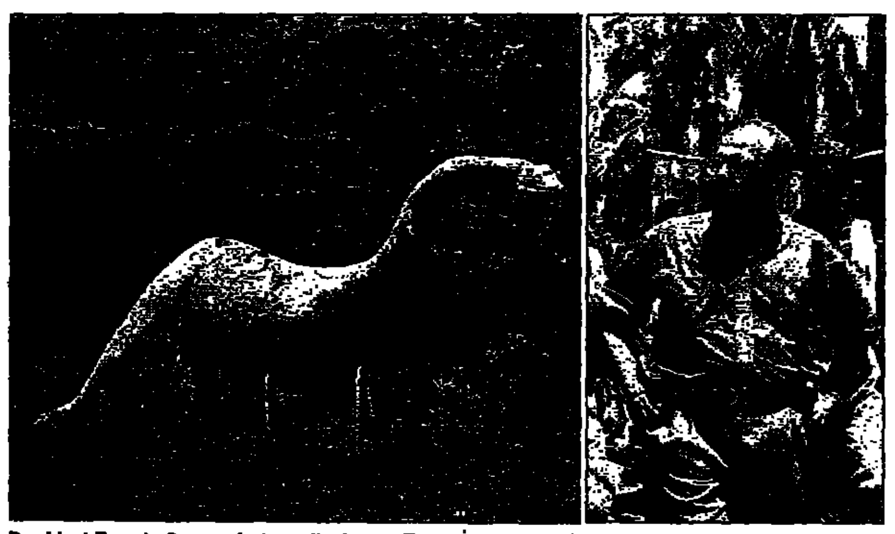
Until two years ago, Mrs Isaza, together with her husband and children, were peasants with a fertile, 30-hectare landholding in the war-torn northern province of Urabá. That was until the day a group of armed men arrived and told them to leave immediately if they valued their lives. "They told us they were professional soldiers but you can never tell who they are," said Mrs Isaza.

The lucrative drugs trade has played a large part in Colombia's violence. During the 1980s, drug lords backed private armies – the seeds of today's paramilitary groups – to combat the country's leftwing guerrilla factions. At the same time, they bought up the most productive areas of land, often forcing peasants such as the Isaza family to give up their plots.

The government hopes the new law, as well as attacking the assets of the country's drug lords, will help reduce the number of displaced people. A recent study by the Catholic church, estimates 1m of Colombia's 40m inhabitants have been displaced over the last 10 years.

More than 1,800 properties – including urban real estate – have been expropriated. The government's aim is to relocate 6,000 people on 25,000 hectares of land before it leaves office in August.

But although the law seems to be providing a solution for many displaced Colombians, the land has only been awarded provisionally.


President Ernesto Samper last month viewing Escobar's estate, which includes copies of dinosaurs AP

That is partly because of unresolved ambiguities in the legislation. The government, under great pressure to regain credibility following a scandal in which millions of dollars of drug money funded President Ernesto Samper's 1994 presidential campaign, concentrated on speed rather than detail when it was pushing the law through Congress.

"The law, for all its good intentions, is very difficult to interpret and apply," said a public prosecutor at the Special Asset Forfeiture Unit. The lack of clarity has given owners of expropriated property plenty of opportunity to appeal. In one case, the lawyer of a suspected drug trafficker has held up a verdict for months by introducing 50 separate appeals.

The Hacienda Nápoles case is also suffering delays. The lawyer for Pablo Escobar's family said he would begin legal proceedings against the government for handing over some of the land before a definitive decision had been reached.

The impasse is causing problems for displaced families and is undermining the technical support which they receive from Incora, the government body in charge of redistributing expropriated agricultural lands.

Because of the uncertainty of the verdicts, Incora has had to design short- and medium-term farm projects for the displaced families. Investment is kept to a minimum for fear the government could lose the cases and the lands with them.

Mr García is aware of the problem. But he argues that it is better to hand over the land provisionally than to allow displaced families to continue living in sub-human conditions by the side of railway escarpments or in urban slums. "The legal cases can take months and we can make use the lands in the meantime," he said.

ADVERTISEMENT

THE GERMAN PFANDBRIEF

Progress Report for Investors

Attracting world investment community

German Pfandbrief making giant strides in size and innovation

The structure of Europe's bond markets is experiencing unprecedented change. On the one hand, the new fiscal prudence that EMU is forcing upon first wave European Union economies is leading to diminishing volumes of new supply in government bond markets. On the other hand, currency considerations are set to become increasingly irrelevant in the euro zone as individual currencies disappear. The result is that institutions investing in the new Euroland will need to look elsewhere for fixed-income instruments that match government bonds in terms of security and liquidity, but which can offer a pick-up over traditional government paper.

Few fixed-income instruments can offer this combination as efficiently as the German Pfandbrief in general and the highly liquid Jumbo Pfandbrief in particular. Today, the German Pfandbrief is the world's largest non-government bond market outside the U.S.

The security of Pfandbriefe – bonds issued to refinance public-sector loans and mortgages – is beyond question, and is most immediately evident from the fact that in the long history of the market, no investor has ever failed to receive payment of full interest and principal on a Pfandbrief issue held to maturity. This unsurpassed track record is an ample testimony to the solidity of the regulatory framework governing the issuance of Pfandbriefe, and to the security of the collateral that backs them.

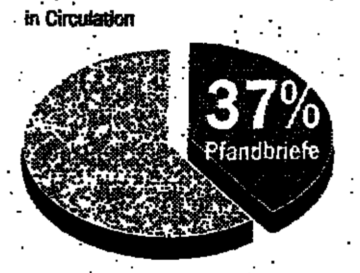
Liquidity, liquidity and liquidity

An added benefit as far as international investors are concerned is that the solidity embedded in the regulatory framework governing the Pfandbrief market has been given a stamp of approval by leading international rating agencies. All Public Pfandbriefe rated to date by Standard & Poor's, and all but one of those rated by Moody's, have been assigned the top possible rating.

Allied to this security are the very high levels of liquidity which have arisen since the launch and development of the Jumbo Pfandbrief market in May 1995. Since then, a number of refinements to the issuing process have formalized and standardized the market. Above all, each Jumbo Pfandbrief issue must amount to at least DM 1 billion and be supported by at least three market-makers prepared to quote continuous bid and ask prices for lots of up to DM 25 million in tight spreads of between 5 and 10 basis points, depending on the maturity of the issue.

The German Bond Market
As of December 31, 1997

Market Share of Pfandbriefe in Circulation



DM 4.3 TRILLION

A growing recognition on the part of international investors of the safety of the Pfandbrief, combined with the attraction of guaranteed liquidity, has fueled a surge in demand for Jumbo issues outside as well as within Germany, and the mortgage banks have been quick to take advantage of the new possibilities this has presented for issuing new bonds in large quantities.

"Precipitous growth" of the Pfandbrief

This in turn has led to what Dresdner Kleinwort Benson (DKB) described in a January report as the "precipitous growth" of the Jumbo Pfandbrief market, which took the total amount outstanding to over DM 220 billion by end-1997, following issuance for the year as a whole of DM 113.8 billion – an impressive figure for a market less than three years old. DKB, for one, predicts total issuance volume for 1998 of DM 140 billion.

There are a number of reasons underpinning market participants' bullishness on the prospects for Pfandbrief issuance in 1998. The growing international visibility and attractiveness of the Pfandbrief is fueling ever increasing demand for the bonds among investors outside Germany. Additionally, a new factor that will come into play in 1998 is the maturing of existing issues which will need to be refinanced, creating a self-perpetuating supply cycle. On March 5 of this year, a Jumbo Pfandbrief – Hypothekenbank in Essen's DM 1 billion issue – matured for the first time. In 1998, DM 7.5 billion in Jumbo issues will mature.

A new international asset class

Historically, issuers of German Pfandbriefe encountered no difficulty in placing their paper with a local investor base. With the approach of EMU, however, Germany's mortgage banks were among the first sizeable group of European issuers to recognize the desirability and opportunities to expand beyond their traditional domestic investor base. This is most clearly shown by the fact that Germany's mortgage banks have already signaled their intention to redenominate Jumbo Pfandbrief issues into euros at the start of 1999.

As a result, the single most prominent characteristic in the primary Pfandbrief market over the last 12 to 18 months has been the increasing energy with which Germany's mortgage banks have sought to cultivate a new international base. Last year saw the first foreign-currency Pfandbrief issues in several innovative deals. Aside from involving institutional investors around the world, the process of internationalization has also brought a host of new participants into the Pfandbrief market – most notably international investment banks and the rating agencies.

Highlights of 1997 included RHEINHYP's euro 10 billion MTN Programme, allowing the bank to issue all kinds of bonds, including Pfandbriefe. In addition, Bayerische Vereinsbank took the internationalization of the Pfandbrief into new territory with a DM 2 billion Global. Sold under Section 3 (a) 2 of the US Securities Act, this was technically the first Pfandbrief which could be offered for public sale in the U.S.

Another landmark deal last year saw a German Pfandbrief denominated for the first time in Sterling. Hypothekenbank in Essen's £ 150 million seven-year transaction, was priced to yield 20 basis points over UK Gilts.

The early months of 1998 have seen a continuation in this trend of Pfandbrief issuers cultivating an increasingly diverse international investor base. DePfa-Bank, for instance, has built upon the foundations it had already laid down in the international market with the launch of a Global Pfandbrief issue of DM 4 billion which broke new ground as the largest single Pfandbrief issue ever launched. More significant still was that no issuer other than governments and German federal states had ever issued larger DM-denominated transactions.

Another significant transaction was the launch of a Sfr 500 million 10-year Pfandbrief issue by Frankfurter Hypothekenbank Centralboden in late March. Allgemeine Hypothekenbank (AHB) also added a new dimension to the internationalization process with the first ever euro/ecu-denominated Pfandbrief – a euro 1 billion issue due in 2004 which was priced at 8 basis points over the euro-denominated French government bond. In a similar vein, Westfälische Hypothekenbank launched a DM 2.5 billion Pfandbrief issue off its euro 10 billion MTN Programme. The deal incorporated a euro fungibility clause allowing for future issues in other mainstream EMU currencies.

Initiatives to improve transparency and efficiency

Aside from the rapid development of the Jumbo Pfandbrief market over the last 36 months, including the growing internationalization of the product, market participants have been continuously seeking to implement other initiatives aimed at enhancing the efficiency and transparency of the sector. In this context, the launch of the JEX index together with the JEXP performance index in October was a milestone in the evolution of the market. The real-time index uses data provided by some 35 Jumbo Pfandbrief market-makers, and is based on a synthetic portfolio of 30 bonds with residual maturities of between one and 10 years.

The introduction of JEX and JEXP represents an important step forward for the Pfandbrief market. Significantly, they pave the way for the launch of a Pfandbrief future, which in turn will allow investors to hedge their exposure to the sector more efficiently. To date, the absence of a hedging instrument has not been a formidable stumbling block to the development of the Jumbo Pfandbrief market. But investors are expected to welcome the launch of a Pfandbrief future contract which is widely expected in 1998.

Jumbo Pfandbrief Issuers
As of March 31, 1998

Issuer	Number of issues	Total volume DM million	Market share%
1. Allgemeine Hypothekenbank	21	37,750	13.11
2. DePfa-Bank	17	36,500	12.68
3. Hypothekenbank in Essen	16	27,500	9.55
4. Rheinische Hypothekenbank	12	23,000	7.99
5. Deutsche Hypothekenbank Frankfurt	13	19,750	6.86
6. Westdeutsche Landesbank	7	14,750	5.12
7. Bayerische Vereinsbank	11	14,500	5.04
8. Frankf. Hypothekenbank Centralboden	8	14,500	5.04
9. Westfälische Hypothekenbank	7	11,000	3.82
10. Berlin-Hannoversche Hypothekenbank	5	9,000	3.13
11. DG HYP	6	9,000	3.13
12. Landesbank Sachsen	6	8,500	2.95
13. Württembergische Hypothekenbank	6	8,200	2.85
14. Hypo-Bank	6	7,500	2.61
15. Hypothekenbank in Hamburg	4	7,000	2.43
16. Deutsche Hypothekenbank Hannover	5	6,500	2.26
17. Norddeutsche Landesbank	3	5,600	1.95
18. Bayerische Landesbank	3	5,350	1.86
19. Nürnberger Hypothekenbank	4	4,000	1.39
20. Deutsche Girozentrale -Deutsche Kommunalbank-	3	4,000	1.39
21. Dexia Hypothekenbank Berlin	3	3,500	1.22
22. Rheinboden Hypothekenbank	2	2,500	0.87
23. Bayerische Handelsbank	2	2,000	0.69
24. Münchener Hypothekenbank	1	2,000	0.69
25. BfG Hypothekenbank	1	1,000	0.35
26. Schleswig-Holsteinische Landschaft	1	1,000	0.35
27. Süddeutsche Bodencreditbank	1	1,000	0.35
28. Wüstenrot Hypothekenbank	1	1,000	0.35
Total Jumbo Pfandbrief Market	175	287,900	100.0

The mortgage banks at work in 1997

Record lending and issuing activity

In 1997, Germany's private mortgage banks established new records for both lending and Pfandbrief issuance. Total new loan commitments reached DM 317.1 billion, an increase of 13.4% over 1996. Of this total, public-sector lending rose by nearly 20% to DM 219.5 billion, while commitments for mortgage loans advanced to DM 97.6 billion, a growth of 1.7% over the strong year-earlier figure.

In the run-up to EMU, the mortgage banks continued to step up their lending considerably in other EU states, more than doubling their commitments to DM 32.7 billion.

Issuance by the mortgage banks of Public and Mortgage Pfandbriefe reached a record volume of DM 275 billion, up 18.5% over 1996. Of this amount Public Pfandbriefe issued rose by 17.8% to DM 204.6 billion, and Mortgage Pfandbriefe totaled DM 70.3 billion (+ 20.9%). Including the figures through end-1997, all German Pfandbrief issuers had bonds outstanding of DM 1.6 trillion or 37% of the total German bond market of over DM 4.3 trillion, and was more than twice the size of the Bund market. Of total Pfandbriefe outstanding, the mortgage banks with DM 1,013 billion accounted for some 63% of this market.

At year-end 1997, 140 issues accounted for Jumbo Pfandbriefe outstanding of about DM 225 billion. The private mortgage banks launched Jumbo issues amounting to about four-fifths of the total.

In 1998, the mortgage banks will continue their concerted drive in preparation for EMU. In the euro zone, which will be the world's second-biggest bond market, the goal is to enhance the German Pfandbrief's leadership in the non-government segment.

Germany's Mortgage Banks in Perspective

Year-end 1997	Total Germany DM billion	Mortgage Banks DM billion	Market share %
ISSUING			
Domestic bonds outstanding	3,798.5	1,097.5	28.9
Domestic bank bonds outstanding	2,422.3	1,097.5	45.3
Pfandbriefe outstanding	1,593.1	1,013.3	63.6
LENDING			
Residential property	1,543.9	363.0	23.5
Commercial real estate	367.5	177.9	48.4
Federal, state, municipal governments	892.1	460.8	51.7

Enhanced safety and market depth

Reinforcing the Pfandbrief's credit quality

Although its track record in terms of safety is unsurpassed in Germany, a number of other measures have recently been initiated which have reinforced the credit quality credentials of the Pfandbrief still further. For example, the European Monetary Institute has already indicated that the Pfandbrief will be eligible for Lombard and repo transactions as Tier 1 assets.

New legislation

More recently still, the start in April of Germany's Third Financial Market Promotion Act has also helped strengthen the market position of the Pfandbrief. As far as Pfandbrief investors are concerned, by far the most important component of this Act is that it will precisely regulate creditors' preferential claims in bankruptcy proceedings, with the assets serving as collateral being given the legal status of a separate reserve fund, making the Pfandbrief even more secure – documenting the impressive century-old record of no mortgage bank insolvency.

Another important provision of the Act entitles the private mortgage banks not only to issue Public Pfandbriefe to refinance their own public-sector loans, but also to issue Public Pfandbriefe to refinance the purchase of bearer bonds issued by public-sector entities. This gives the mortgage banks the opportunity to significantly expend their business, which in turn will enhance the depth of the German Pfandbrief market.

GERMANY'S MORTGAGE BANKS

DEPFA-BANK, WIESBADEN
BAYERISCHE VEREINSBANK AG, MÜNCHEN
HYPO-BANK, MÜNCHEN
DEUTSCHE HYP, FRANKFURT
FRANKFURTER HYPOTHEKENBANK CENTRALBODEN AG, FRANKFURT
RHEINHYP, FRANKFURT
BERLIN-HANNOVERSCHE HYPOTHEKENBANK AG, BERLIN AND HANNOVER
DEUTSCHE GENOSSENSCHAFTS-HYPOTHEKENBANK AG, HAMBURG
HYPOTHEKENBANK IN ESSEN AG, ESSEN
BAYERISCHE HANDELSBANK AG, MÜNCHEN
ALLGEMEINE HYPOTHEKENBANK AG, FRANKFURT
WESTHYP, DORTMUND
WÜRTTEMBERGER HYPO, STUTTGART
HAMBURGHYP, HAMBURG
SÜDDEUTSCHE BODENCREDITBANK AG, MÜNCHEN
DEUTSCHE HYPOTHEKENBANK (ACT.-GES.), HANNOVER
MÜNCHENER HYPOTHEKENBANK EG, MÜNCHEN
NÜRNBERGER HYPOTHEKENBANK, NÜRNBERG
DEXIA HYPOTHEKENBANK BERLIN AG, BERLIN
RHEINBODEN HYPOTHEKENBANK AG, KÖLN
NORDHYPO BANK, HAMBURG
SCHLESWIG-HOLSTEINISCHE LANDSCHAFT HYPOTHEKENBANK AG, KIEL
BFG HYPOTHEKENBANK AG, FRANKFURT
LÜBECKER HYPOTHEKENBANK AG, LÜBECK
WL-BANK, MÜNSTER
WÜSTENROT HYPOTHEKENBANK AKTIENGESELLSCHAFT, LUDWIGSBURG
M.M WARBURG & CO HYPOTHEKENBANK AG, HAMBURG

For further information about German Pfandbriefe please contact:
Association of German Mortgage Banks (VDH)
Bonn, Germany, Fax (+228) 9 59 02 44
E-mail: vdh@hypverband.de

Banks request postponement of Indonesia debt talks

By Stephen Fidler in Washington, Edward Luce in London and Gillian Tett in Tokyo

Leading banks have requested the postponement of debt restructuring talks with Indonesia after last week's riots, bankers said yesterday.

They said a meeting between the three co-chairmen of the country's bank *advisory committee*, Chase Manhattan, Deutsche Bank and Bank of Tokyo-Mitsubishi, set for New York this week, had been postponed by a week. Conditions were not right for further discussions, they said.

The banks have also asked for the postponement of a further meeting with the government which was set for Frankfurt on May 26. *This was due to deal with* the debt owed to international banks by private-sector companies, which constitutes more than three-quarters of Indonesia's $80bn debt to international banks.

Resolving this commercial debt problem is expected to require a mechanism called Indra, similar to the so-called *Ficorca* arrangement devised by Mexico in the early 1980s, *to deal with* its commercial debt problems. Bankers said that unlike Ficorca, debt payments would be converted from local currency into foreign currency at the prevailing market exchange rate with no government subsidy. They also said bankers were keen to ensure that companies which could pay their debts were excluded from the programme.

"The feeling is that we can *still move ahead on* this thing," said one bank official in New York.

However, bankers say a resolution of Indonesia's private sector debt is likely to be a drawn out process owing to the diverse range of Indonesian companies affected. These range from near-bankrupt homegrown companies to subsidiaries of Japanese corporations based in Indonesia.

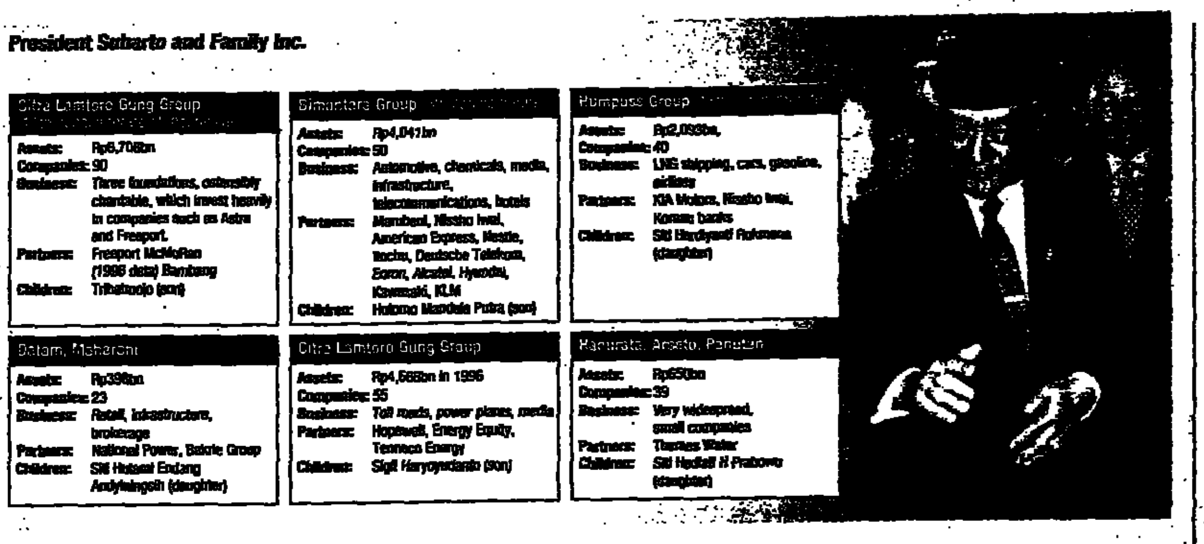
The goal of hammering out a workable formula is likely to be further hindered by the reluctance of Japanese banks to record further losses in advance of the release of their annual financial results in late June. Japanese banks – many of which have steeply increased their bad loan provisions in recent months – are the most heavily exposed to Indonesia with about $23bn on their books. As one US banker says: "One gets the impression that the Japanese are spending quite a lot of time dragging their feet."

The uncertainty in Jakarta has also raised the question of whether the International Monetary Fund would go ahead to disburse any more funds. In the first place, the possibility of a change of government would deter the Fund from making further disbursements: any new government would have to sit down with a Fund team to negotiate a new package. Second, the Suharto government *has reversed price* rises that were an important element in the IMF accord. Third, the IMF team of two permanent representatives and a six person mission has been evacuated.

However, having disbursed $1bn to Indonesia on *May 4*, the IMF does not need to make a decision on a further disbursement until early June. In briefings last week, US government officials said the administration *continued to* back the IMF-led package.

Fires light up the collapse of the house of Suharto

Resented privilege is under attack, write **Sander Thoenes and John Ridding**



The last taxis back on the *streets of Jakarta* after the riots last week were *the dark* blue Citra cabs of Siti Hardiyanti Rukmana, *President Suharto's eldest* daughter.

"They knew that if they got on to the streets earlier *they would have been* torched," a driver of a com*peting taxi company* said. "People don't like Tutut."

Tutut is the nickname of Mrs Hardiyanti, one of Mr Suharto's six children. A popular joke holds that she got her nickname because she enjoys the sound of cars honking on the toll roads built by Citra Marga, one of her 55 companies.

But many of her toll booths were destroyed in the rioting. Venting their rage at the Suharto family, mobs set fire to showrooms for cars produced by two of her brothers and ravaged many of the branches of their banks.

Staff said Mrs Hardiyanti and her youngest brother, Hutomo Mandala Putra, were back at their offices yesterday, denying rumours they had fled the country. *But Mr Suharto and his family* face increasing pressure *to give up* their business privileges; a group of Mos*lem* leaders over the weekend demanded they hand back their property to the government.

Investors got the message. Shares in Citra Marga were down 11.76 per cent at Rp375 (3½ US cents) by noon yesterday, compared with last year's high of Rp1,500. Bimantara, a conglomerate controlled by Mr Suharto's second son Bambang Trihatmojo, fell 6.67 per cent to Rp350, compared with a high of Rp4,500.

One western consultant who worked with the Suharto family warned that collapse of the family's business empire could prove costly to hundreds of foreign enterprises and banks – particularly Japanese ones – that teamed up with them.

"But foreign partners should have seen this coming," he said. "A few years ago we were advising a big international fund on Indonesian infrastructure investments, and we said that connections to the first family would become a liability one day. They went ahead. That day has now come."

Mr Suharto's inability to restrain his children has been one of the causes of his fall from grace. They remained oblivious to the rising resentment against them and pushed ahead with controversial ventures even as they hurt their father's standing and jeopardised $43bn in loans arranged by the International Monetary Fund. Mr Hutomo held on to a clove monopoly that impoverished farmers even after his father had officially abolished it to meet an agreement with the IMF.

By government account, Mr Suharto's sons were the eighth, ninth and 14th largest taxpayers in Indonesia last year. Forbes, the US magazine, last year placed Mr Suharto third in its "king or tyrant" category, estimated him to be worth some $16bn and the whole family $46bn – some $3bn more than the IMF package (at last year's exchange rate).

Some of this is held in real estate, bank accounts and shares abroad, including in Automobili Lamborghini, United Pulp & Paper and Van der Horst of Singapore.

But most analysts believe much of the family wealth was held at home. It has been heavily devalued by the rupiah's depreciation and devastated by the country's economic collapse.

Sempati Air, the airline of Mr Hutomo, had been all but bankrupt even before the crisis hit and has stopped flying. A big olefins complex of Mr Bambang is burdened by $1.37bn in debt, dragging down several banks with it and threatening the investment of Marubeni, the Japanese trading house. Mr Bambang's assembly lines of Kawasaki motorcycles is hit badly by the rupiah depreciation, as many of the parts are imported and sales have collapsed.

Bimantara reported a 93 per cent drop in profits for 1997 on heavy foreign exchange losses and interest expenses. Other listed family businesses failed to report at all.

Much of the family fortune was built on levies and consulting fees rather than shares, and little of that is reported. In late 1997, western investors started complaining that the added cost of paying off the family and other well connected Indonesians had shot up to 30 per cent of the value of some deals. "They have started the feeding frenzy before the downfall," one diplomat said at the time.

Mr Suharto has sacrificed some family businesses in recent months and Pertamina, the oil and gas monopoly, announced over the weekend that it had cancelled its exclusive contracts with two import agents controlled by two of Mr Suharto's sons. But they continue shipping oil and gas and laying pipelines at inflated fees.

Christianto Wibiseno, a consultant, predicted any new government would want to spare foreign partners of the first family but confiscate the Suharto businesses.

"You spare their lives but not their assets," he said. "They will be left with their bank accounts. I don't think they will be poor."

NEWS DIGEST

GROWTH CONTINUES TO SLOW

HK's 3.9% unemployment is highest in 14 years

Unemployment in Hong Kong reached a 14-year high in the three months to April as the Asian financial crisis continues to slow economic growth in the territory and depress consumer spending. Government figures released yesterday show unemployment in the three months to April rose to 3.9 per cent, compared with 3.5 per cent in the three months to March. It is the highest level since the 4 per cent registered in 1984, when uncertainty engulfed Hong Kong before the Joint Declaration, which sealed the terms for its return to Chinese sovereignty in 1997. Tang Kwong-yiu, the government economist, said he expected unemployment to remain at the present high levels.

While the worst hit sectors have been construction and retail, with a number of shops responding to the downturn by axing staff and closing outlets, job-cutting has been across the board. At the top end of the salary scale, investment banks and securities houses have also been cutting staff. **Louise Lucas, Hong Kong**

ALL SECTORS WEAKER

Singapore growth slows

The Singapore economy grew by 5.6 per cent in the first quarter of 1998, down from 7.6 per cent in the previous quarter, as all sectors showed weaker year-on-year growth. The seasonally adjusted unemployment rate rose to 2.2 per cent in March, from 2 per cent in December. A survey of private sector establishments with at least 25 employees showed about 7,000 workers were retrenched in the first quarter. Inflationary pressures were lower as weaker consumer demand pushed prices down. The Consumer Price Index was 1.1 per cent, down from 2.3 per cent in the previous quarter. Singapore's current account surplus narrowed to S$4.6bn (US$2.8bn) in the first quarter, from S$4.8bn in the preceding quarter. **Sheila McNulty, Kuala Lumpur**

POSTPONEMENT CALL

Cambodia election threat

Cambodia's four leading opposition parties said yesterday they would pull out of the country's election unless it was postponed and conditions for a free and fair poll were in place. The parties, including the royalist Funcinpec party of ousted prime minister Prince Norodom Ranariddh and Sam Rainsy's Khmer Nation party, said they would continue to prepare for the election on July 26 but would only take part if electoral reforms were made soon. A boycott would undo months of international diplomacy aimed at restoring a measure of democracy to Cambodia. But by threatening to boycott, the opposition runs the risk of becoming irrelevant if it is not supported by the Friends of Cambodia group, an informal caucus of Asian and western powers trying to resolve Cambodia's political turmoil.

Hun Sen, the prime minister, dismissed the boycott threat, saying the elections would have to be held as scheduled or be postponed until 2003. The opposition parties said they wanted an end to political violence and intimidation, equal access to state-controlled electronic media, and an overhaul of the National Election Commission, dominated by backers of Hun Sen. **Ted Bardacke, Bangkok**

Legislators prepare way for a transfer of power

By Sander Thoenes in Jakarta

With a surprise call for President Suharto's resignation, Indonesia's parliamentary leaders yesterday set in motion what could become a peaceful and constitutional transfer of power.

Harmoko, speaker of the House of People's Representatives and a long-time loyal servant to the president, walked in on a student meeting in parliament with his four deputies to announce they would formalise a request for Mr Suharto's resignation tomorrow.

"The House calls on the entire community to remain united and create a peaceful and calm situation so that everything can proceed constitutionally," he said.

General Wiranto, chief commander of the armed forces, and other generals indicated as much yesterday when they stressed that Mr Harmoko's statement was an individual action that had no legal force. Any demand on Mr Suharto to quit must be made by the whole assembly, in a *formal* session, Gen Wiranto said.

Umar Juoro, a prominent economist said Harmoko did not call for a special session of the assembly. "He just asked Mr Suharto to step down. Harmoko was persuaded that Suharto is a sinking ship, he cannot be saved. But if Suharto says no and Harmoko and his deputies agree with the factions tomorrow, they can together call a special session of the Assembly of People's Deputies," Mr Juoro said. [The Assembly is the country's highest legislative body which incorporates the House and 500 others who have largely been handpicked by Mr Suharto].

Mr Juoro and diplomats said they expect Mr Harmoko to press ahead with today's meeting and then call a meeting of the Assembly. The House factions comprise the dominant government party Golkar, the Moslem PPP, the nationalist PDI party and ABRI, the powerful military which holds 75 unelected seats.

The Assembly, which elected Mr Suharto for a seventh term by consensus in March, could then dismiss him and possibly also the unpopular vice president, B.J. Habibie. It could call elections or pick a new leader on the spot.

Mr Suharto could yet try to prevent the Assembly from meeting, or some of his generals could move in and impose their choice, but diplomats felt that was unlikely. "They are all talking constitutionality," one diplomat said. "They won't break the rules. Mr Suharto wrote those rules."

Although the Assembly members owe their privileges to the president, popular frustration with Mr Suharto has become so widespread that they could spark another bout of violence if they stuck with him or if they appointed Mr Habibie instead.

An alternative option is for Mr Suharto to resign, which would leave Mr Habibie as acting president. The constitution is vague on whether this would require a special session of the Assembly to re-affirm Mr Habibie.

"The best is for Suharto to step down and Habibie to become president for a transition period until everything calms down," Mr Juoro said. "Amien Rais [a popular opposition leader] could support that, because then he has a chance to run for president. He has no chance in this parliament. This is a crony parliament."

Thai finance companies nationalised

By Ted Bardacke in Bangkok and Louise Lucas in Hong Kong

Thailand's central bank nationalised seven more ailing finance companies yesterday, wiping out shareholder equity and adding to the mammoth bill faced by Thai taxpayers for the rescue of the country's financial sector.

The seven companies include listed Union Asia Finance and Nava Finance, which were abandoned by *their parent banks, Bangkok* Bank and Thai Military Bank respectively, because of skyrocketing levels of non-performing loans and high interest rates.

Late last year, Thailand shut 56 finance companies after pouring in more than $10bn of state funds in a vain effort to keep them afloat. In contrast, the seven nationalised finance companies will be merged with a state-run company as the *government attempts to* recoup the more than $300m *it has already lent them*.

Krungthai Thanakit Finance and Securities will take on the assets, worth approximately Bt100bn ($2.6bn), and the liabilities of the seven nationalised companies and receive a commercial banking licence as a bonus once its parent company, Krung Thai Bank, disposes of its controlling stake.

But because the move sad*dles Krungthai Thanakit* with bad debt and additional *liabilities to the central* bank's financial institutions' rescue fund, the government has also pledged to pay for Krungthai Thanakit's recapitalisation as well.

The central bank, using the same rationale it used when it nationalised four commercial banks earlier this year, said it hoped to recoup some of its investment by selling shares in Krungthai Thanakit to the private sector. But many analysts doubt whether there will be buyers.

"It sounds like they're setting themselves up for further spending," said Russell Kopp, head of research at Dresdner Kleinwort Benson.

Less than a year ago there were 91 finance companies operating in Thailand; now there are 28.

The *deputy finance* minister, Pisit Leeahtam, said *many of the remaining com*panies were either controlled by *foreign investors, had* strong links with well capitalised Thai banks, or were very conservative in their lending practices.

"I will not promise that there will be no more" financial institutions subject to government intervention, he said. "But the chance of the remaining ones getting into trouble is much less."

Bangkok counts cost of turbulence

Thailand's deputy minister of finance, Pisit Leeahtam, has estimated that the total financial damage wrought to the Thai economy by the crisis which swept through south-east Asia, after effectively beginning in Thailand with the floating of the baht in July last year, is Bt5,000bn ($128.6bn), or 100 per cent of this year's gross domestic product. Mr Pisit's calculation includes the effect of the plunging stock market and the effect of the exchange rate on borrowers. "This is a painful lesson; we have a duty to make sure it will never happen again, not just in Thailand but other countries," he said.

India boosts contract approvals

By Amy Louise Kazmin in New Delhi

India has approved a flurry of foreign projects, prompting hopes it will try to counter punitive economic sanctions by accelerating the *sluggish pace of clearing* investment proposals.

The day after sanctions were imposed following India's five nuclear tests last week, P.R. Kumaramangalam, power minister, said the cabinet had granted "in principle" approvals for long-pending counter-guarantees for three fast-track power projects, including one involving a US company, *CMS*.

Subsequently, India said it would speed clearance of long-pending proposals in oil exploration and production, and immediately sign production sharing contracts for 18 exploration blocks. Five of the companies awarded such contracts are from the US.

Also, India's Ministry of Mines awarded a licence to a US mining company, Phelps Dodge, to prospect for copper in the eastern state of Bihar.

"They are looking to put pressure on the US government through the US private sector," a New Delhi-based western diplomat declared.

Over the next few weeks, an official statement said, India will issue more clearances for pending infrastructure projects, including investments in power, telecoms, petroleum, and ports, after Atal Behari Vajpayee, prime minister, ordered "speedy" resolution of bureaucratic disputes which have stalled many projects.

Jaswant Singh, a Bharatiya Janata party (BJP) leader, said yesterday the *flurry of approvals following* the nuclear tests was "clearly accidental"; the BJP has always been committed to economic growth.

Many analysts believe the BJP hopes that stepping up the pace of awarding long-stalled contracts will persuade US companies to lobby for an easing of the sanctions imposed by the US and other nations last week.

"The government is being quite astute," said the head of research for a foreign brokerage house in Bombay. "It's clearly aimed at trying to soften the blow of sanctions."

The New Delhi-based representative for a foreign oil company said he believed *the government would now* "bend over backwards" to get projects moving, if only to show US-imposed sanctions were having no impact on India's economic prospects or its desirability as an investment destination.

"They want to show the sanctions don't mean anything ... that anything the US tries to do to them backfires," he added.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	105.6	100.7	103.9	98.4	76.1
1988	109.9	103.2	106.8	100.2	71.0
1989	115.2	108.5	109.9	101.9	74.9
1990	121.5	113.9	113.5	104.9	73.2
1991	126.6	116.3	117.3	108.4	74.1
1992	130.4	117.7	120.1	108.4	74.0
1993	134.3	119.2	123.1	108.6	76.4
1994	137.8	119.9	126.5	107.9	74.1
1995	141.7	122.2	129.7	105.7	68.7
1996	145.8	125.4	133.9	104.6	73.4
1997	149.2	125.9	138.1	103.7	79.1
2nd qtr.1997	2.3	0.4	2.8	–1.1	78.4
3rd qtr.1997	2.2	–0.1	2.7	–1.4	79.5
4th qtr.1997	1.9	–0.7	3.4	–0.7	80.2
1st qtr.1998	1.5	–1.7	3.0		81.9
May 1997	2.2	0.4	3.0	–1.0	78.0
June	2.3	–0.1	2.8	–1.0	77.7
July	2.2	–0.2	2.5	–1.3	78.6
August	2.2	–0.2	2.8	–1.8	80.0
September	2.1	0.0	2.7	–1.1	79.9
October	2.1	–0.3	3.5	–0.9	79.4
November	1.8	–0.7	3.4	–0.4	79.7
December	1.7	–1.2	3.2	–0.6	81.6
January 1998	1.6	–1.8	2.8	–0.6	82.3
February	1.4	–1.6	3.1	–0.3	81.5
March	1.4	–1.8	3.1		82.0
April	1.4	–1.2			82.4

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	101.3	92.5	108.1	100.0	122.9
1988	102.3	92.3	107.8	96.0	131.0
1989	105.1	94.2	114.0	96.8	123.5
1990	108.3	95.7	120.1	99.7	108.2
1991	111.9	96.8	124.2	103.9	113.2
1992	114.0	95.9	125.6	112.8	114.5
1993	115.4	94.3	125.8	118.8	131.9
1994	116.2	92.6	128.4	118.5	137.3
1995	115.9	92.0	132.5	115.8	138.3
1996	115.8	90.4	135.8	113.2	117.7
1997	117.4	91.0	139.7	110.0	111.5
2nd qtr.1997	1.5	1.3	2.9	–4.5	112.8
3rd qtr.1997	1.7	1.3	2.7	–2.7	115.9
4th qtr.1997	2.1	1.1	1.6	1.3	108.1
1st qtr.1998	2.1				106.8
May 1997	1.4	1.4	2.9	–5.1	112.9
June	1.9	1.4	3.0	–5.1	117.4
July	1.4	1.3	3.2	–3.3	118.0
August	1.6	1.3	2.9	–1.8	116.9
September	2.2	1.4	1.5	–3.1	112.8
October	2.4	1.3	1.5	–1.0	111.6
November	2.0	1.1	1.6	3.2	107.4
December	1.8	0.9	1.5	1.6	105.2
January 1998	2.0	0.9	–0.4	4.0	106.4
February	2.0	0.4	0.1		108.4
March	2.2				105.8
April	0.7				103.4

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	100.1	95.0	107.0	107.1	110.9
1988	101.4	96.2	110.0	106.9	109.9
1989	104.2	99.3	112.9	108.0	107.5
1990	107.0	101.0	117.9	110.3	109.9
1991	110.9	103.4	125.3	109.6	107.5
1992	116.5	104.9	139.1	115.3	110.0
1993	121.7	105.1	148.2	119.4	111.3
1994	125.1	105.7	152.5	112.1	109.8
1995	127.4	107.5	159.1	110.8	114.7
1996	129.3	107.1	163.0	109.7	109.9
1997	131.5	108.2	165.0	103.2	104.7
2nd qtr.1997	1.6	1.1	1.5	–5.0	105.2
3rd qtr.1997	1.9	1.4	1.3	–8.2	103.4
4th qtr.1997	1.8	1.1	0.9	–5.5	104.1
1st qtr.1998	1.2	0.6			103.4
May 1997	1.6	1.1	1.3	–4.0	105.3
June	1.7	1.4	1.3	–6.1	104.7
July	1.9	1.4	1.5	–9.3	103.5
August	2.0	1.5	1.2	–4.1	103.1
September	1.9	1.4	1.2	–5.1	103.6
October	1.8	1.2	1.1	–6.2	104.1
November	1.9	1.2	0.5	–4.1	104.3
December	1.8	1.1	1.2	–6.2	103.8
January 1998	1.3	0.7	1.2		104.0
February	1.1	0.7	1.2		103.4
March	1.1	0.6			103.1
April	1.4				103.5

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	105.9	98.1	107.8	103.0	104.7
1988	108.8	102.9	111.5	104.1	102.1
1989	112.6	108.2	115.8	105.2	99.7
1990	116.5	107.1	121.5	109.6	102.9
1991	120.2	105.9	127.1	113.4	100.7
1992	123.1	104.3	132.3	115.6	104.2
1993	125.6	101.6	135.6	118.1	106.6
1994	127.7	102.7	138.2		106.1
1995	130.0	109.7	141.5		106.1
1996	132.6	105.8	144.9		106.2
1997	134.2	105.2	149.0		102.1
2nd qtr.1997	0.9	–0.8	2.7	n.a.	102.7
3rd qtr.1997	1.3	0.5	2.8	n.a.	100.3
4th qtr.1997	1.2	0.9	2.8	n.a.	102.0
1st qtr.1998	0.7		2.6	n.a.	100.5
May 1997	0.9	n.a.	n.a.	n.a.	102.8
June	1.0	n.a.	n.a.	n.a.	101.7
July	1.0	n.a.	n.a.	n.a.	99.6
August	1.5	n.a.	n.a.	n.a.	99.9
September	1.3	n.a.	n.a.	n.a.	101.4
October	1.1	n.a.	n.a.	n.a.	101.9
November	1.3	n.a.	n.a.	n.a.	102.3
December	1.1	n.a.	n.a.	n.a.	102.0
January 1998	0.5	n.a.	n.a.	n.a.	99.8
February	0.7	n.a.	n.a.	n.a.	100.7
March	0.8	n.a.	n.a.	n.a.	100.9
April	1.0	n.a.	n.a.	n.a.	100.9

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	111.0	102.2	111.6	105.5	102.1
1988	116.5	105.7	118.4	109.7	100.9
1989	124.2	112.0	125.6	112.3	105.1
1990	131.7	116.2	134.7	118.8	111.9
1991	140.3	120.0	147.9	129.6	113.1
1992	147.7	122.3	155.9	134.5	109.5
1993	153.9	126.9	161.6	136.9	95.2
1994	160.0	131.6	167.0	138.1	93.3
1995	168.6	142.0	172.2	138.1	90.3
1996	175.0	144.7	175.3		101.9
1997	178.2	146.6	181.6		102.7
2nd qtr.1997	1.6	1.2	3.8	n.a.	102.1
3rd qtr.1997	1.5	1.7	3.4	n.a.	101.8
4th qtr.1997	1.6	1.5	3.3	n.a.	102.7
1st qtr.1998	1.7	1.1		n.a.	102.0
May 1997	1.6	1.1	3.8	n.a.	102.2
June	1.4	1.6	3.7	n.a.	102.0
July	1.6	1.7	3.4	n.a.	101.6
August	1.5	1.7	3.4	n.a.	101.6
September	1.4	1.6	3.4	n.a.	102.2
October	1.6	1.6	3.4	n.a.	102.5
November	1.6	1.6	3.4	n.a.	103.0
December	1.5	1.4	3.2	n.a.	102.5
January 1998	1.6	1.2	1.6	n.a.	102.2
February	1.8	1.3	1.7	n.a.	101.8
March	1.7	0.9		n.a.	102.0
April	1.8			n.a.	102.2

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	107.7	104.9	116.3	106.2	94.6
1988	113.0	108.7	126.2	108.8	101.9
1989	121.8	113.9	137.2	114.1	100.5
1990	133.3	121.0	150.1	121.6	101.4
1991	141.2	127.5	162.4	127.9	104.4
1992	146.4	131.5	173.1	128.2	100.9
1993	148.7	138.7	180.9	127.6	93.1
1994	152.4	140.1	189.5	127.1	94.1
1995	157.8	146.0	198.0	131.7	90.7
1996	161.5	149.8	206.8	138.6	93.7
1997	165.5	151.5	215.8	143.3	109.5
2nd qtr.1997	2.7	1.0	4.2	3.0	108.3
3rd qtr.1997	3.5	1.3	4.1	2.8	111.7
4th qtr.1997	3.7	1.0	4.6	3.9	112.1
1st qtr.1998	3.4	0.8	5.3	5.4	114.0
May 1997	2.6	1.0	4.3	3.8	107.7
June	2.9	1.1	4.4	3.5	109.3
July	3.4	1.3	4.0	2.8	114.3
August	3.5	1.4	4.4	2.8	111.8
September	3.6	1.2	4.0	2.8	109.0
October	3.7	1.1	4.6	3.7	109.9
November	3.7	0.9	4.9	4.3	112.9
December	3.6	1.0	4.5	4.3	113.4
January 1998	3.3	0.8	4.6	5.6	113.4
February	3.4	0.7	5.0		113.2
March	3.5	1.1	6.3		115.3
April		1.0			115.5

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies, Germany – *mining and manufacturing*, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

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ERICSSON

War crimes: the UN finds the courage for convictions

The United Nations is planning to set up a permanent international criminal tribunal, but, asks Laura Silber, will it be effective?

United Nations is gearing up to meet a growing world demand for justice, with plans on the table for the first permanent international criminal tribunal and discussions under way on a possible court to try genocide suspects from Cambodia.

Although the UN has come under fire for failings in its peacekeeping operations and sanctions policies, the world organisation's judicial function has never been stronger – with international tribunals now making their first convictions for atrocities in Rwanda and the former Yugoslavia.

"Experience has showed that a system of international criminal justice is possible and that credible institutions can be created," says Jelena Pejic of the Lawyers' Committee for Human Rights, a human rights watchdog group.

Delegates from 150 countries hope to build on the experience of these two landmark tribunals when they hold a treaty conference in Rome next month to establish a standing international criminal court to try genocide, war crimes and other crimes against humanity.

The delegates remain divided over a host of issues, such as the scope of the prosecutor's powers, the role of the Security Council and the extent to which crimes committed in internal conflicts would be under the court's jurisdiction. Since none of the UN's 185-member states has opposed the court, its creation seems a certainty – what remains in question is how effective and independent the tribunal will be.

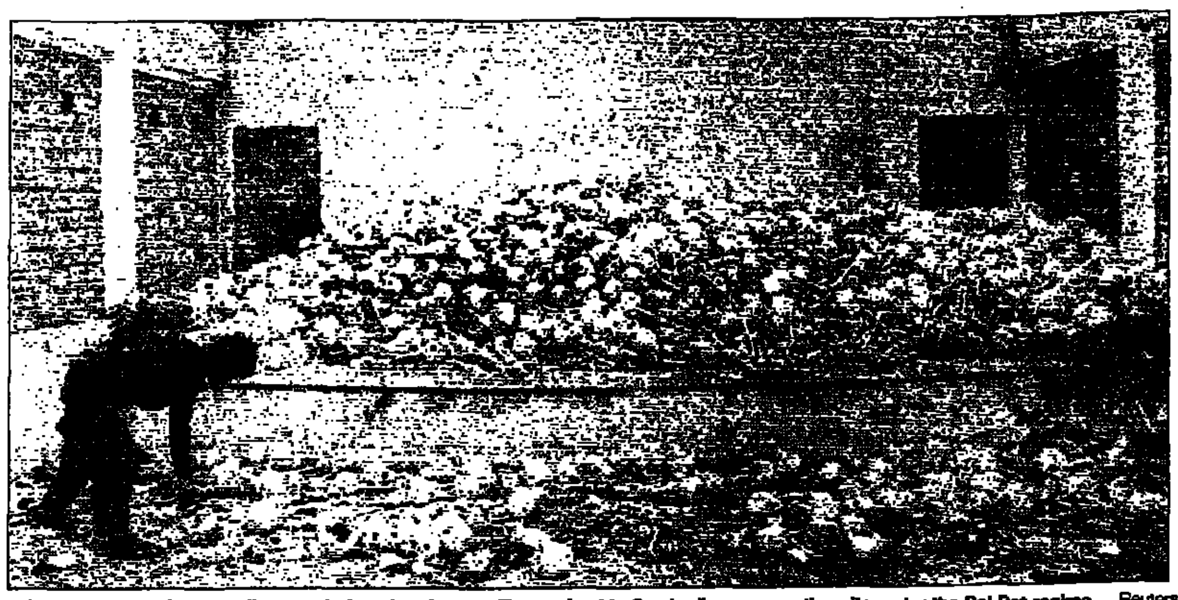
Diplomats at UN headquarters are also weighing a US proposal to the Security Council to establish a tribunal for Cambodia which would bring to justice the leaders of the Khmer Rouge held responsible for the killing of more than 1m people from 1975-1979. Pol Pot, who led the bloody regime, died last month but several of his senior aides remain at liberty.

The US draft resolution calls for the tribunal to operate in The Hague, alongside the UN court for former Yugoslavia, which was created in 1993. Louise Arbour of Canada is the court's chief prosecutor and holds the same position for the Rwanda tribunal, whose seat is in Arusha, Tanzania.

The 15-member Security Council has yet to agree to give life to the Cambodia court. Diplomats say that of the five veto-wielding permanent council members, China, which opposes outside intervention into domestic affairs and also aided the Khmer Rouge, is against it – saying Phnom Penh should hold a possible trial.

In the run-up to Cambodian elections even supporters of the new tribunal wonder if the court might increase instability in the strife-torn country.

Proponents of the permanent tribunal say the request for the Cambodian court drives home the importance of their cause. "It starkly underlines the need for the creation of a permanent tribunal," says Ms Pejic.



A former refugee places skulls on a platform in a former village school in Cambodia, an execution site under the Pol Pot regime Reuters

"Such a tribunal could have dealt with the events as they were unfolding. The Security Council could be paralysed in reacting to egregious crimes, as evidenced by China's opposition to the Cambodia tribunal," she added.

Setting up the ad hoc tribunals was an arduous task. The Rwanda court, dogged by serious administrative and procedural problems, was even derided as a "travesty". A recent UN report notes a slightly improved record but still criticised management of the tribunal.

It may be boosted after Jean Kambanda, the former Hutu prime minister of Rwanda, on May 1 pleaded guilty to six counts of genocide and crimes against humanity in his first appearance in the court. Critics said Mr Kambanda's admission was prompted by the public execution of 22 Rwandans – the international tribunal does not have a death sentence. More than 100,000 mostly Hutus have been detained on charges of genocide and may fear a similar fate.

Amnesty International, a human rights lobby group, also protested against the detention of Mr Kambanda in a "safe house" rather than in the Arusha prison, which could have put him under pressure.

The court for former Yugoslavia has a much better record. The success of that tribunal (as will that of the proposed permanent court), however, hinges on the compliance of states in handing over indicted criminals to The Hague.

Key suspected war criminals such as Radovan Karadzic, former Bosnian Serb leader, and General Ratko Mladic, Serb military commander during the Bosnian war, remain at large. Of 74 indicted suspects only 26 are in custody – many of whom arrived over the past six months. The court has found two suspects guilty with one awaiting the outcome of an appeal.

To cope with delays in bringing suspects to trial, the tribunal last week opened a second courtroom, funded by a $500,000 donation from Britain. Gabrielle Kirk McDonald, tribunal president, this week warned that unless a third court room is completed, some of the suspects in custody will have to wait until the year 2000 to have their day in the dock.

It is too early to determine whether the courts have helped reconciliation. John Bolton, an assistant secretary of state under President Bush who is a staunch opponent of the proposed permanent tribunal, believes that the ad hoc tribunals can undermine the process. "There are plenty of situations where the search for justice can often be retributive and does not necessarily contribute to the search for a political solution," he said, adding that it can give nations an excuse to avoid taking responsibility for their crimes.

He believes that tribunals should be set up on a case-by-case basis. But its supporters caution that a permanent court is necessary to avoid selective justice. "Why Cambodia, Yugoslavia, and Rwanda and not Argentina, Liberia and Iraq," asked Ms Pejic.

"There cannot be a trade-off between peace and justice. Enduring peace can only be based on reconciliation which rests on justice. The alternative is cycles of revenge."

Mideast peace effort stymied

By Roula Khalaf in London and Judy Dempsey in Jerusalem

The US yesterday failed to break the 14-month deadlock in the Middle East peace process after Madeleine Albright, US secretary of state, held an unexpected meeting with Yassir Arafat, president of the Palestinian Authority in London.

The meeting, called late on Sunday night when Mr Arafat was attending a Socialist International meeting in Oslo, followed two rounds of talks between Mrs Albright and Benjamin Netanyahu, Israeli prime minister, in Washington last week.

The US wants Israel to accept a package involving the handover of 13 per cent of land to Palestinian control as part of a second Israeli troop pullback from the West Bank. In return, the US said it would support the acceleration of final settlement talks. These talks will focus on the future status of Jerusalem, the Jewish settlements, and will for the first time define Israel's borders.

The Palestinians have accepted the US proposals, although they had at first been expecting about 30 per cent of land to be handed over in the second redeployment.

Mr Netanyahu has insisted on handing back about 9 per cent on the grounds any more would jeopardise Israel's security.

Mr Netanyahu went on the defensive last night, denying Israeli media reports that he intended to hand over 13 per cent. "I did not agree to 13 per cent. This is not true," he said during a hastily convened press conference minutes before the ceremony to inaugurate Ezer Weizman as president for a second term.

"We advanced the peace process [in Washington] but there was no breakthrough this time," said Mr Netanyahu, clearly anxious to reassure his nationalist coalition partners that he did not cut any deal behind their backs.

Mr Netanyahu wants to postpone a third and final troop pullback until the start of the final settlement talks, even though in the Hebron 1997 agreement, the Israeli prime minister agreed to carry out the three pullbacks "not later than mid-1998."

NEWS DIGEST

EGYPT PRIVATISATION

Sale of first state bank postponed for three years

Egypt has postponed plans to privatise one of the four largest state-owned banks for at least three years, in spite of statements suggesting it would sell one of the banks this year.

Youssef Boutros Ghali, minister of economy, told parliament that legislation allowing bank privatisation would not be invoked before 2001. Earlier this year the government had suggested it would issue shares this year in one bank – expected to be the Bank of Alexandria. Mr Boutros Ghali said that "unstable world markets" had led the government to back down from the bank sale.

Kamal el-Ganzouri, the prime minister, recently stated that the aim of selling a stake in a public sector bank would be to create competition between it and the remaining three state banks. The aim was not simply to undertake the privatisation of a state bank, but to allow it to exploit a degree of foreign shareholding which would energise the banking sector.

The postponement reflects an increasingly ambiguous attitude within the government towards privatising banks.
Mark Huband, Cairo

OSTEOPOROSIS TREATMENT

Drug may help fight cancer

Eli Lilly's drug for osteoporosis may be effective in treating breast cancer and heart disease, according to trial results released yesterday. Raloxifene, synthetic oestrogen replacement therapy marketed under the name Evista, showed a 70 per cent reduction in the incidence of newly diagnosed breast cancer in a study of 7,705 women. The drug also reduced cholesterol levels, a leading risk factor for heart disease.

Evista is being marketed to post-menopausal women who are candidates for oestrogen replacement but do not want such therapy's side effects, which include continued menstruation. **Victoria Griffith, Boston**

BIOTECHNOLOGY PATENTS

Cancer gene dispute settled

A legal dispute between two US biotechnology companies, Oncormed and Myriad Genetics, over patent rights to the two breast cancer genes, BRCA1 and BRCA2, has been settled.

Oncormed will withdraw from the provision of breast cancer testing services and hand that business to Myriad, which will in effect have a monopoly over BRCA1 and BRCA2 testing in the US. But the two companies will continue to compete in the development of diagnostic kits and cancer treatments based on the two genes – potentially a far larger business than testing services. **Clive Cookson, London**

Companies welcome deal on US sanctions

By David White in Madrid, Robert Graham in Paris and Stefan Wagstyl in London

European companies and governments broadly welcomed the US-EU deal to head off US sanctions over trade with Iran, Libya and Cuba. The Spanish government, one of the most vehement opponents of US measures against investments in Cuba, said it was "very satisfied" by the agreement.

Total, the French oil group with plans for oil developments in Iran, said: "This moves things in the right direction." The sentiment was echoed by BP and Shell.

News of the deal came as a relief to Spanish companies which have recently headed the list of EU investors in Cuba, with investments of more than \$100m there.

Sol Meliá, Spain's largest hotel group and Cuba's biggest foreign operator, was reluctant to comment on the deal but said: "Cuba is going wonderfully."

The family-controlled group was alarmed two years ago when it found itself on the US target list under the Helms-Burton law, which penalises foreign companies using property in Cuba expropriated from US citizens.

The group, which went into Cuba in 1990, recently agreed to add four more five-star hotels to its Cuban chain, making a total of 12.

A delegation from about 70 Spanish companies visited Cuba last month to look into investment openings. Spanish business is hoping to capitalise on a recovery in official relations between Spain and its former colony, following a crisis in 1996. Spain has already lifted itself into the position of Cuba's leading European trading partner, with Spanish exports to the island running at \$400m a year.

Total was more measured in its response. Thierry Desmarest, chairman, has long expressed confidence that a political solution could be found to the "extra-territorial" Iran-Libya Sanctions Act (ILSA).

Last September Total led a consortium which signed a deal with Tehran to invest \$2bn in two offshore blocks in the gas-rich South Pars field facing Qatar in the Gulf. Total held a 40 per cent stake while Russia's Gazprom and Malaysia's Petronas each had 30 per cent.

"We are still in the pre-engineering phase of the project," Total said yesterday. Although the threat of US sanctions has hung over the project for eight months, planning has gone ahead regardless.

Total has throughout received the backing of the French government, which has vigorously challenged the right of the US to claim extra-territorial jurisdiction to punish companies investing in the "rogue" states of Iran and Libya.

The composition of the consortium also limited the likelihood of a real challenge to the deal. Both Malaysia and Russia had opposed ILSA, arguing that this was not an effective way of punishing countries backing terrorism. French officials said imposing sanctions on companies investing more than \$40m in Iran risked being counter-productive at a moment when Tehran appeared anxious to normalise relations with the main industrial nations.

BP, which was founded on Iranian oil, has no active interest in any Iranian project, including South Pars. But it has opened a representative office and is looking for possible investments.

Shell reacted cautiously, saying it was studying the agreement to assess the impact on its business. Shell has a stake in the South Pars project, but only in its later stages which involve constructing a gas pipeline to Pakistan. It has a small additives business in Iran and trades in Iranian oil.

See Editorial Comment

Clinton and Blair address a press conference in London yesterday after EU and US negotiators agreed a settlement in the sanctions dispute

Clinton urges new, faster trade round

By Gerard Baker in Geneva

US President Bill Clinton yesterday urged governments to move speedily to a new round of trade negotiations within the World Trade Organisation, beginning next year with discussions on agriculture followed quickly by talks on services and industrial tariffs.

But Mr Clinton warned that successful negotiations required governments to ensure their citizens had full confidence in a more open trading system. He proposed that the WTO should therefore open its doors to outsiders in the form of a new forum consisting of business, labour, environmental and consumer groups who to give their views on trade negotations.

"The WTO was created to lift the lives of ordinary citizens; it should listen to them," he told the opening session of this year's ministerial conference of the organisation. In a speech commemorating the 50th anniversary of the start of the multilateral trading system, Mr Clinton addressed an audience that included Fidel Castro, the Cuban president.

To speed up negotiations Mr Clinton suggested the next round should be conducted on a sector by sector basis, rather than the comprehensive approach favoured by negotiators in the past. "In an era in which product life cycles are measured in months, and information and money move around the globe in seconds, we can no longer afford to take seven years to finish a trade round, as happened during the Uruguay Round," Mr Clinton said. "There must be a way to tear down barriers without waiting for every issue in every sector to be resolved before any issue in any sector is resolved."

Mr Clinton promised once again that he would ask the US Congress for "fast track" authority to negotiate international trade agreements. Last year the Congress declined to give fast track authority to Mr Clinton, who is the first president in more than 20 years to have been denied it.

The President's emphasis on labour, environment and social issues was directed principally towards his political constituency at home, especially his fellow Democrats, many of whom are opposed to trade deals that do not involve tough standards for labour and environmental protection. Engaging ordinary people in the advantages of international trade is a critical element of Mr Clinton's approach to the political challenge of increasingly globalised business activity.

Mr Clinton also called on countries to freeze tariffs on all electronic transmissions across borders. "We cannot allow discriminatory barriers to stunt the development of the most promising new economic opportunity in decades." He also urged more openness at the WTO.

Ruggiero offers olive branch on environment

By Frances Williams in Geneva and Leyla Boulton, Environment Correspondent

Renato Ruggiero, director-general of the World Trade Organisation, yesterday promised more dialogue with environmental groups to allay their fears that world trading rules threaten the environment.

In his opening address to the WTO's second ministerial meeting in Geneva, Mr Ruggiero acknowledged that the WTO's committee on trade and environment, which has spent three years discussing trade-environment links without any tangible results, needed "a renewed political impetus".

His olive branch coincided with an avalanche of attacks by environmentalist groups yesterday.

The Worldwide Fund for Nature, which has promoted successful voluntary schemes for labelling sustainable timber and fish imports, said decisions by WTO dispute panels – most recently in the shrimp-turtle case – threatened to undermine the legitimacy of the international trading system in the eyes of the public.

Britain's Royal Society for the Prevention of Cruelty to Animals said that exemptions to trade rules "had been interpreted narrowly by panels and...applied in a manner that has started to undermine measures taken to protect high welfare standards".

It noted that an EU decision to ban fur imports from animals caught with leghold traps had been weakened by a deal struck with Canada and Russia by the European Commission to allow their continued use in some circumstances.

European member states had also failed to implement a ban, due to have come into effect in January, on the use of animals to test cosmetics.

Finally, the Commission had been unable to persuade ministers to adopt its proposal setting minimum standards for battery hens' living conditions. The proposals would have increased the price of eggs in the EU.

The RSPCA said there two main trading obstacles to raising animal welfare standards. Unless import taxes and tariffs were adjusted accordingly, more ethically produced goods would be unable to compete with cheaper imports.

Most importantly, discriminating among products on the basis of how they are produced is prohibited by WTO rules.

The RSPCA urged governments to consider introducing "tariff and tax adjustments" for raising the price of imports that fell foul of such standards. It also said they should offer improved market access to third country producers that met such standards.

Sir Leon Brittan, European Union trade commissioner, has called for a high-level meeting to break the logjam, an initiative that has been backed by the US, Japan and Canada.

Brussels heads for clash over genetic labelling

By Michael Smith in Brussels

The European Commission is heading for a clash with European Union nations unless it heeds a call from them yesterday to change a controversial proposal on the labelling of genetically modified soya and maize.

Ministers from 12 of the 15 EU countries indicated yesterday they were unhappy with the Commission's plan to label foods if they "may contain" genetically modified organisms, with some arguing it would be of little use to consumers.

They supported a proposal by the UK, holder of the EU's rotating presidency, that foods should only carry a compulsory label if definitely proved to contain genetically modified organisms.

The presidency said it had asked the Commission to reconsider its proposals because there was a qualified majority for change. It hopes for an answer by tomorrow.

Under EU procedures, the Commission is able to overrule countries on this issue unless there is unanimous opposition from them. The danger of doing that is that it would alienate countries which would, in any case, be unlikely to enforce the proposals rigorously.

The Commission's proposals have been widely criticised by consumer and environmental organisations which say they provide so many exemptions that they are unlikely to help food buyers determine whether the products contain genetically modified organisms.

Greenpeace, the environmental group, and Beuc, the European consumers' organisation, want enforced separation of modified and conventional crops. The US, where most modified crops are grown, opposes this, and there is little support from EU member states.

Beuc said yesterday that if the presidency's proposals were adopted, the regulation would apply to even fewer crops. Some 60 per cent of processed food contains soyabean derivatives; many others contain maize derivatives.

The directive's effects would be limited to maize and soya, but are seen as setting a precedent for other genetically modified crops, production of which is growing rapidly. The UK presidency's plan was supported by all countries except Sweden, Denmark and Italy.

As well as dropping the Commission's proposal for "may contain" labels, it would lead to the drawing up of a list of products which would not be subjected to labelling requirements.

The Commission could consider the presidency's request to reconsider its proposals tomorrow but may do so next week.

Counterfeiting seen as threat to share prices

By John Willman, Consumer Industries Editor

Counterfeiting of branded products such as drinks, designer clothes and luxury goods is a threat to the share prices of some of the world's biggest consumer groups, according to a survey of investment analysts and fund managers, published today.

The survey, carried out by CDR International, a UK-based consultancy on brand protection, found that a counterfeiting story affecting a company's brands was almost as big a threat as association with child labour or human rights abuses.

A quarter of the analysts and managers said a counterfeiting scare would have a bigger effect on market sentiment than results below expectations or the resignation of the chief executive.

A second survey published by CDR shows confusion among consumers over counterfeits. Most were unable to distinguish between genuine and fake logos for a selection of international brands such as Nike, Gucci and Bell's scotch whisky. Most failed to distinguish between real and counterfeit goods. With designer jeans, for example, 70 per cent were unable to identify the genuine article.

The risk of buying a fake meant 72 per cent said they would be put off buying a company's products if those had a reputation for being counterfeited. Yet the consumers in the survey were prepared to pay a third more on average for a branded T-shirt than a plain one.

More than 40 per cent said they saw no point in buying designer labels since most people would think they were fakes; 51 per cent said they would buy an imitation.

More than 60 per cent believed they had seen counterfeit products in the past three months, rising to 81 per cent for under-35s. The brands most thought of as subject to counterfeiting included Nike, Calvin Klein, Rolex and Levi.

CDR found most marketing managers had failed to recognise the threat posed by counterfeiting. Modern security features such as holograms were used by only one in 10; only a handful had registered colours or proprietary technologies to protect them.

● Holograms are now used by global spirits groups such as Diageo and Allied Domecq to deter counterfeiters. Devised by De La Rue Brand Protection, a subsidiary of the UK printing group, the 3-D holographic image on the shrinkwrap seal is almost impossible to copy, and an attempt to tamper with the bottle is hard to conceal.

US to hold corn syrup inquiry

By Stephen Fidler in Washington

The office of the US Trade Representative yesterday announced it would launch an investigation into allegations that unfair trade practices in Mexico were harming US exporters of high fructose corn syrup, the sweetener used extensively in the soft drinks industry.

The decision responds to a complaint from the Corn Refiners Association under Section 301 of the Trade Act of 1974. The complaint claims that in September 1997, "with the support of the government of Mexico", representatives of the Mexican sugar industry and the country's soft drink bottlers agreed to limit the soft drink industry's consumption of corn syrup.

The US refiners say practices in Mexico deny fair and equitable market opportunities for exporters of corn syrup.

"This petition raises serious allegations to be investigated," Charlene Barshefsky, US Trade Representative, said. The US will ask for immediate consultations with Mexico.

Section 301 investigations allow business and workers in the US to seek government aid in response to alleged unfair trade practices. Investigations must be concluded within 12 months.

TRANSPORT DEPUTY PREMIER LOOKS READY TO APPROVE LOWER-PRICED PROPOSAL BY CONSORTIUM

Channel rail link set for rescue

By Jonathan Ford and George Parker

John Prescott, the deputy prime minister, yesterday looked set to approve a rescue package for the Channel tunnel rail link after receiving a cut-price proposal from the project's backers. The tunnel runs between England and France.

Under the new offer, London and Continental Railways is thought to be asking for an extra subsidy of between £600m ($1bn) and £900m, compared with the £1.2bn rejected by Mr Prescott in January.

The consortium was asked by the government to bid a range of subsidies because of the uncertainty surrounding the future financial performance of the Eurostar high-speed train service. Should Eurostar's revenues grow more quickly than expected, this would allow the government to reduce its subsidy contribution – most of which is paid towards the end of the project.

LCR is also understood to have withdrawn its demand for 10 years to build the link, and is now understood to be aiming for a completion date of 2007. Mr Prescott will spend the next few weeks examining the revised proposals, in consultation with Geoffrey Robinson, a Treasury minister.

Government officials handling the project have been in close contact with LCR over the last few months, and have made clear what Mr Prescott expects. Officials believe it is unlikely the consortium would waste huge amounts of effort in drawing up a plan which Mr Prescott would veto.

Although the extra government subsidy remains substantial, the government would be left with a £900m bill if the project collapsed, comprising £400m of accumulated LCR debts and £500m associated with the loss-making Eurostar service.

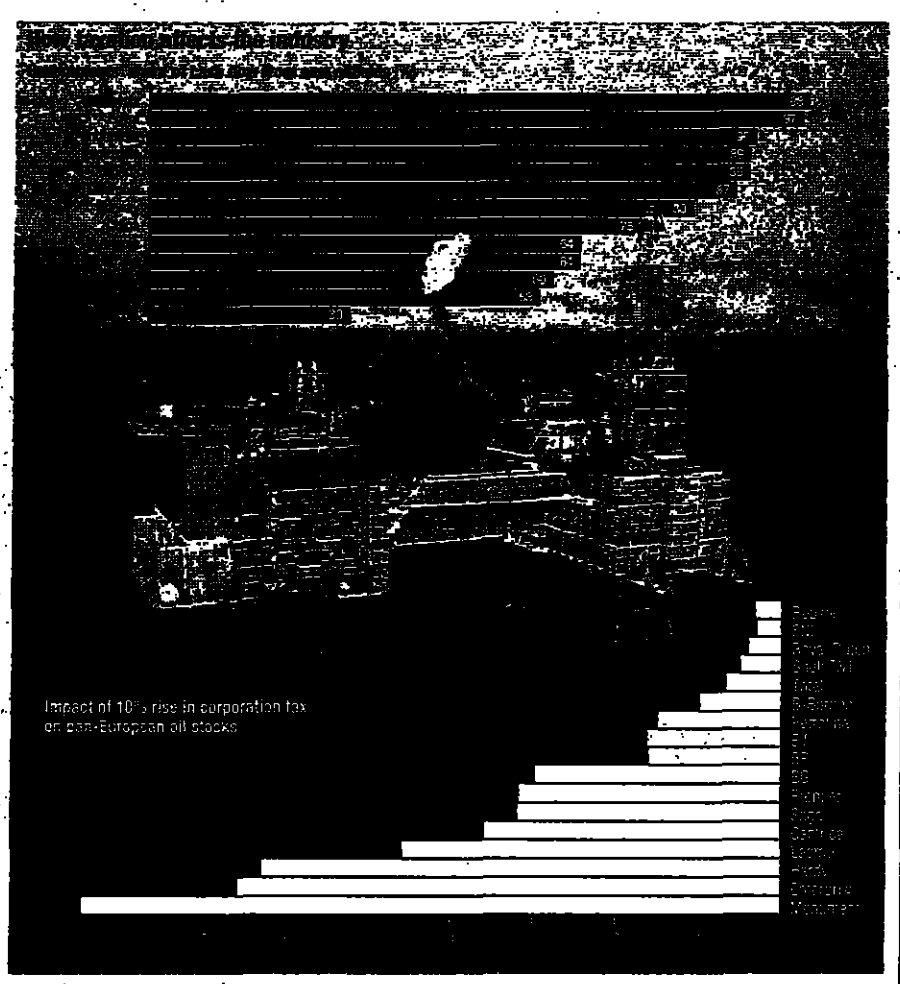
However there are still expected to be hard negotiations on the details of the LCR package, including the key questions of the level of government subsidy, and on the completion date for the 68-mile link from the tunnel to St Pancras, London.

LCR had been given until the end of this month to come up with a new financing package. Its first attempt fell apart in January when the government turned down a request for a further £1.2bn of public subsidy on top of the £1.8bn already agreed. Under the new plan, LCR would build the £5.4bn link in two stages with financial assistance from Railtrack, the UK rail infrastructure group.

Eurostar would be operated by a consortium led by National Express, the coach and train operator, and British Airways, or by Richard Branson's Virgin Group. The National Express/BA proposal envisages Eurostar trains being run to London's Heathrow airport.

Delay by Treasury taxes patience of offshore industry

Oil sector opposes radical fiscal change but wants an end to uncertainty, reports **Robert Corzine**



The offshore oil industry is becoming increasingly frustrated waiting for the government to produce its consultation document on new taxes. The document was due last month.

"We're getting no feedback from the Treasury," says James May of the UK Offshore Operators Association, the trade group for the 37 companies that explore and produce oil and natural gas in UK waters.

In recent months, companies have deferred some projects because of uncertainty over taxes and low oil prices. Executives warn that the UK's attractiveness as a destination for investment is being undermined by uncertainty at a time when low crude prices threaten to dampen capital expenditure on new oil and gas projects.

The industry was jolted in March when the government – which expects to receive £3.5bn ($5.84bn) from offshore taxes in the 1997-98 tax year – declared the present arrangement to be "unsatisfactory". Many companies had hoped that low prices would deter ministers from tinkering with the tax regime.

But in the last Budget, the Treasury put forward two alternatives to the present system, under which developers of new fields pay corporation tax at the standard 30 per cent.

One involves the imposition of a supplementary corporation tax. The other option called for the re-introduction of a profits-based petroleum revenue tax, which had been abolished for new fields in 1993.

The impact of the new taxes would vary widely between oil companies, prompting some observers to speculate that ministers wanted to divide the industry, which had maintained an unusually united front in the run-up to the Budget announcement.

In recent weeks, the industry has kept up its lobbying effort to dissuade the government from making radical changes. This week UKOOA wrote to Tony Blair, taking him to task for remarks made in the House of Commons last week when the prime minister said the UK oil industry enjoyed an "enormously favourable tax regime".

UKOOA countered that the average tax rate in the sector was 45-50 per cent, rather than 30 per cent for new projects, and that the rate on some fields was as high as 69 per cent.

Analysts at Petroconsultants, a Geneva-based industry group, agree that the "current UK fiscal system is the most investor-friendly of virtually all 120 global regimes analysed". But there is also evidence that it has succeeded in attracting new investment and maintaining relatively high levels of activity in the industry, even though the size of average North Sea discoveries has fallen steadily.

The UK regime is especially attractive when viewed against Norway, where the total "state take", which includes direct state participation in offshore projects, is just over 80 per cent.

But as Steve Parish at Petroconsultants notes, the UK is not just competing with Norway: "It is competing for global capital that could just as easily go to Angola or Argentina."

Given that the oil industry accounted for 16 per cent of total industrial investment last year, ministers are expected to be careful in setting a new tax regime. In recent weeks, officials have reviewed in detail the two proposals to ensure that the numbers "are robust in the light of current circumstances", according to one industry expert.

Oil men appear confident that their detailed analysis of the sector shows little or no spare "taxable capacity". But executives admit that the government might disagree about the impact of higher offshore taxes on jobs. The worst outcome, they say, would be if the consultation document is heavy on political justification for new taxes, but light on the rigorous financial analysis they say is needed to justify any tax rises.

Law firm wins fight for German alliance

By Robert Rice, Legal Correspondent

S. J. Berwin & Co, the City law firm, yesterday won the battle for German law firm, Knopf Tulloch & Partner, stealing the specialist private equity adviser from under the noses of its London rivals. The firms are to form an exclusive alliance to exploit the growing German and European private equity market.

The move underlines the determination of the UK's leading commercial law firms to gain a significant share of the lucrative German legal services market.

It follows the announcement this year of an alliance between Freshfields, the UK international law firm, and Germany's Deringer Tessin Herrmann & Sedemund.

Knopf Tulloch, a multi-disciplinary partnership of tax advisers, lawyers and accountants, based in Frankfurt, has built a considerable reputation advising the private equity industry in Germany since it was formed eight years ago as a breakaway from accountants Arthur Andersen.

Among its private equity clients are 3i, ABN Amro, UBS Capital, Alpinvest, Legal & General and Candover. The firm had been wooed by several of the UK's leading private equity legal advisers, among them the market leader, Ashurst Morris Crisp. Ashursts has recently opened an office of its own in Frankfurt.

S. J. Berwin, which has one of the strongest private equity practices in the UK, identified Knopf Tulloch as a merger target from research carried out for it by London Economics. The firms are prevented from entering into a full merger at this stage by Law Society rules which prevent solicitors [lawyers] entering into multi-disciplinary partnerships. The Law Society is the governing body for solicitors in the UK.

David Harrel, S. J. Berwin's senior partner, said the firm saw significant opportunities in the German and European private equity markets.

In 1996 Germany was the most active continental European market for management buy-outs with a total transaction value of £1.2bn ($2bn). In the 10 years to 1998, Germany was also among the top four European destinations for MBO investment from UK sources.

According to German academics, there are about 700,000 family-owned *Mittelstand* companies in Germany which will be looking for new owners over the next 10 years. In addition, several big German companies, such as Daimler and Hoechst, have sold lossmaking divisions recently to focus on core businesses and this trend is expected to continue. The private equity industry welcomed the link.

Petrol market spared monopolies referral

By Gautam Malkani in London

John Bridgeman, the UK's director-general of fair trading, yesterday ruled out a fourth referral of the petrol retail trade to the Monopolies and Mergers Commission, saying that competition was "fierce" and favourable for British consumers.

Mr Bridgeman said his review had not found evidence of predatory or collusive behaviour by big retailers that was "intended to remove independent rivals".

The report acknowledged that competition between supermarket and oil company forecourts had squeezed some independents out of the market. "Competition promotes market efficiency, keen prices and consumer choice but inevitably results in winners and losers ... I do not believe that lower prices indicate predatory behaviour," said Mr Bridgeman.

The past eight years have seen pump prices fall by about a third in real terms, excluding duty and value added tax. The report said supermarkets' pricing behaviour reflected a low cost base and competition with other supermarkets. Mr Bridgeman said the 40 per cent drop in the cost of crude oil in the 18 months to March 1998 had had a minimal effect on pump prices, which were largely determined by tax and distribution costs.

Since the last MMC investigation in 1990, which also concluded that the industry was competitive and operating in the public interest, supermarkets' share of the market has grown from 5 per cent to 23 per cent.

The Petrol Retailers Association criticised the report for not reflecting the current position of the petrol retailing market. It said consumers in rural areas faced high prices and extensive closures: "They have missed a big opportunity to help consumers get a better deal."

NEWS DIGEST

NORTHERN IRELAND

Clinton appeals for Yes vote in peace referendum

President Clinton yesterday made an emotional appeal for a Yes vote in Friday's referendum on the Northern Ireland peace deal, urging the province to opt for hope over fear: "If I were an Irish Protestant, which I am, but living in Northern Ireland instead of the US, I would be thinking about my daughter's future and her children's future."

At a press conference after the summit between the European Union and the US in London, Mr Clinton warned unionists the risks of backing the agreement were much less than the risk of "having everything fall apart". Tony Blair, the prime minister, told the conference that the people of Northern Ireland faced an "amazing" future if peace could be achieved.

Meanwhile, a former senior official of the Protestant Orange Order has backed the Ulster peace accord, giving a badly needed boost to the Yes campaign. Warren Parter says in an article in today's Irish Times that the Stormont agreement represents "the lesser of two evils" and calls for fellow Orangmen in the 70,000-strong Loyalist organisation to back David Trimble, leader of the Ulster Unionists, the largest pro-British party. **Liam Halligan, Belfast; David Wighton, London**

US MINE FRAUD

Three convicted in London

Three businessmen were convicted at London's central criminal court yesterday on charges of conspiring to defraud shareholders who invested almost £30m ($50m) in the Butte Mining company, which was set up in the late 1980s to exploit mineral deposits in Montana in the US.

Clive Smith, the entrepreneur behind the ill-fated venture, John Clarke, a former Butte director, and Kenneth Clews, managing director of Robertson Research, a mining consultancy will be sentenced on Thursday. A fourth businessman, Roy Bichan, a former non-executive chairman of Butte and former deputy chairman of the Welsh Development Agency, was acquitted of two fraud charges last week.

The trial of the three convicted men lasted 11 months and followed a three-year investigation by the Serious Fraud Office into the affairs of Butte Mining. **John Mason, London**

MOBILE PHONE NETWORKS

Auction may raise $2.5bn

Licences to operate the next generation of mobile phone networks are to be sold next year in an auction which could raise up to £1.5bn ($2.5bn) for the government.

Barbara Roche, trade and industry minister, said yesterday that the new generation of mobile services – known as universal mobile telephone systems or UMTS – offered prospects for new jobs, services and investment in the UK. It is thought that between three and five licences will be awarded. The competition will be open to all-comers, UK-based or from overseas, subject only to a basic pre-qualification.

Today, Ms Roche chairs the European Union Telecoms Council at which a draft decision aimed at promoting UMTS in the EU will be considered. **Alan Cane, London**

PRIVATE SCHOOLS

Fear over ghettos of wealth

Britain's private schools are becoming increasingly exclusive, as rising numbers of upper middle-class families show growing dissatisfaction with the state education system, according to a survey published today by the Independent Schools Information Service.

The finding, from a poll of more than 700 parents by Mori, the market research company, raises fears that fee-paying schools could become ghettos of exclusivity long before the government's assisted places scheme, which offers subsidised places to children from poor families, is fully phased out in 2005. **Simon Targett, London**

INVESTMENT

Tax free scheme attacked

Benchmark standards for Individual Savings Accounts, the tax-free investment that will replace personal equity plans and tax-exempt special savings accounts next April, will "bring flexibility and peace of mind to the savings market", the government insisted yesterday.

But the proposals were savaged by some influential savings industry figures. "If the government proceeds with its current thoughts, it will ensure that [benchmarked] unit trust ISAs are sold in bucket loads," said Philip Warland, director-general of the Association of Unit Trusts and Investment Funds. "But it will be economically illiterate, politically inept and lethal for some consumers." **Jean Eaglesham, London**

Arms-to-Africa company 'told of UN embargo'

By Andrew Parker and Jimmy Burns

Sandline, the British military consultancy, was told in January that shipments of weapons to anyone connected with Sierra Leone would breach the United Nations arms embargo, Robin Cook, the foreign secretary, told the House of Commons yesterday.

The meeting, held nearly two months before West African forces toppled a rebel government in Sierra Leone, was disclosed as Mr Cook announced the appointment of a retired civil servant to head an independent inquiry into the affair.

Mr Cook said the inquiry would begin immediately as Customs and Excise announced it would not recommend prosecution of Sandline International, the British company accused of breaching a UN embargo by supplying arms to Sierra Leone.

Mr Cook said that lieutenant-colonel Tim Spicer, chief executive of Sandline, met Foreign Office officials in London to discuss Sierra Leone on January 19. At that meeting was Craig Murray, deputy head of the FO's Africa desk. However, it was not until February 18 that officials alerted Customs to Sandline's activities. Sandline insists that its activities were approved by the government, and did not violate UN security council resolutions.

Mr Cook's decision to appoint Sir Thomas Legg, former permanent secretary at the Lord Chancellor's department, to head the independent inquiry was attacked in the Commons. The Lord Chancellor is the senior government law officer.

Menzies Campbell, the Liberal Democrat foreign affairs spokesman, said Mr Cook should have gone outside Whitehall and appointed a judge. He also claimed Tony Blair, the prime minister, had undermined the Customs probe by dismissing the arms to Africa affair as a "hoo hah".

Mr Cook rejected a call by opposition Conservatives for the inquiry to be held in public. The inquiry will establish what was known by ministers and officials about plans to supply arms and whether there was any official encouragement.

MPs clear Boeing helicopter in crash

By Jimmy Burns and Liam Halligan

A House of Commons defence committee yesterday said it had found no "compelling evidence" that technical failure was the cause of the 1994 Chinook crash in which 25 senior intelligence personnel died on the Mull of Kintyre on the west coast of Scotland.

The MPs also accepted the reported assurances by the manufacturer of the helicopter, Boeing, that there was only a minimal risk to flight safety in the event of "debonding" between key components and the flight control panel.

"While we make no judgment on the immediate causes of the crash ... we conclude, on the basis of the evidence presented to us, the Chinook Mark-2 fleet appears to be operating reasonably safely and reliably," the committee concludes in a report published yesterday and welcomed last night by the Ministry of Defence. However, the committee refused to endorse the findings of an RAF Board of Inquiry which blamed the two pilots who died in the crash.

PROFILE TONY REIS, SWISSCOM CHIEF EXECUTIVE

Veteran holds the line

William Hall meets a telecoms chief facing a tough challenge in Switzerland

Tony Reis, the new chief executive of Swisscom, has accepted a challenge that would daunt the management of the best run Swiss multinationals, let alone the untested managers of one of Europe's last state-owned telephone monopolies.

At 56, an age when most of his former International Business Machines colleagues are practising their golf swing, Mr Reis has been given less than a year to transform one of Switzerland's most bureaucratic businesses into a shareholder friendly company that can be floated on the international stock market.

His task is complicated by the fact that Swisscom is for the first time facing serious competition in its home market, while the fast-changing alliances in the international telecommunications industry raise questions about the long-term survival of medium-sized national operators such as Swisscom.

Swisscom, which employs about 20,000 people, will be the first leading European telecommunications company to be floated since last January's liberalisation of the European market. The government gave approval for the flotation last week. Switzerland has a new regulatory system that is starting to make life difficult by ordering Swisscom to cut its interconnection charges to encourage new competitors.

Switzerland is a natural target for global telecommunications operators. It is the world's seventh biggest market in terms of international phone traffic. Its charges are among the highest, and there is an above-average density of high-use business customers in a few centres.

Swisscom owns one of the world's most modern digital telephone networks and it is one of the world's most efficient operators in terms of productivity ratios. But its technology is a temporary advantage in the face of financially strong competitors, such as British Telecommunications and Deutsche Telekom, which are determined to win market share by cutting prices.

One of Mr Reis's first tasks has been to overhaul Swisscom's pricing strategy. Instead of cutting tariffs across the board, he is differentiating prices and even quality of services. He intends to move up the value chain by bombarding the market with services. "What business wants is solutions. This is what we are focusing on," says Mr Reis.

One example is a pilot project in Bern, which allows a driver to check via mobile phone the availability of parking in a car park.

Mr Reis believes that Swisscom can win back customers in areas such as data services, not because it is less expensive than its competitors but because customers have discovered that service level goes with price. If there are "mission-critical applications" where a whole business depends on telecommunications, customers will be willing to pay a proper price, he argues.

It is early days but Mr Reis appears to be making an impact on a company traditionally renowned for its engineering prowess rather than its commercial skills. "The problems when a company changes direction are the same in IBM as in Swisscom," says Mr Reis.

Mr Reis, who joined as Swisscom's marketing chief in January 1997, has reshuffled his management team since his appointment as chief executive last January. Only two members of Swisscom's nine-strong top management remain from the days of the old Swiss PTT.

The 17 regional managements have been cut to four, and services where Swisscom does not have a core competence are being outsourced. The organisation has been renamed Swisscom and its new corporate identity has been translated on to 13,000 public telephone cabins, 7,000 vehicles, and 350 buildings.

Tony Reis: optimistic about Swisscom's ability to compete

Swisscom is never going to sell itself to international investors as a growth stock. Nevertheless, it will have to continue growing to offset the impact on its SFr10bn ($6.7bn) a year revenues of lower prices and loss of market share. An important part of its growth strategy is its policy of "home market extension" into neighbouring regions whose combined population far exceeds Switzerland's 7m. It has started competing with Deutsche Telekom in the state of Baden-Württemberg in Germany, joined forces with Strasbourg's local electricity company to enter France's Alsace region, and will soon move into northern Italy.

Such moves are designed to carve a future for a medium-sized telecommunications company in an industry of emerging supranational carriers. But Mr Reis still needs to make sure that Swisscom backs a winner in the growing horse-trading over strategic international telecommunications alliances. For the moment Swisscom's main thrust is via Unisource, along with Sweden's Telia, and the Dutch PTT, which works in partnership with AT&T. But it has proved to be a rather shaky alliance in terms of its shareholders.

Nevertheless, Mr Reis is upbeat about Swisscom's ability to compete alongside the leading companies in the industry. He sees greater differentiation between those who provide the network infrastructure versus those who provide the products and services that run on those infrastructures or highways. "You do not have to be the owner of a highway to be a very successful transportation company," he says.

The second reason for his optimism is that the global telecommunications market is becoming more complex. The name of the game will be managing complexity for customers. "It is not a question of size but a question of knowhow and trust," says Mr Reis.

PEOPLE ON THE MOVE

Seiler leaves UBS before merger with SBC

Urs Seiler, 49, one of Union Bank of Switzerland's most senior executives, is quitting ahead of UBS's merger with Swiss Bank Corporation, its smaller rival.

Seiler, responsible for country risk management, project finance and trade finance at UBS, had been offered the job of chairman of the emerging market activities in Europe, Africa and the Middle East, of Warburg Dillon Read, the investment banking arm of the enlarged UBS. However, he turned the post down because of "differences over the business approach" in his new area of responsibility.

The departure of Seiler, who has been with UBS for 14 years, is the latest sign of the growing dissatisfaction among UBS veterans at the way most of the top positions in the enlarged group are being reserved for SBC executives.

Anton Affentranger, 42, head of commercial banking and another member of UBS's enlarged executive board, has joined Lombard Odier, and Ulrish Grete, head of resources at UBS, has also quit.

Last week Gerhard Heinrich, 46, UBS's most senior banker in Germany, defected to Credit Suisse First Boston, and Jim McCaughan, chief executive of UBS Asset Management in the US, has joined Oppenheimer Capital, a unit of PIMCO Advisers, as president.

William Hall, Zurich

Politzer joins ING Barings

ING Barings, the investment bank owned by ING, has appointed Gabriel Politzer managing director and deputy regional head of emerging markets and high yield debt and derivatives for the Americas.

Politzer, 38, is joining ING Barings from Union Bank of Switzerland, which is merging with Swiss Bank Corporation. Based in New York, he was managing director and deputy head of global emerging markets at UBS, focusing particularly on local markets in Latin America.

At ING Barings Politzer will lead the investment bank's local markets and structured products business in the Americas region. He will be based in New York and will report to Jose Berenguer, global co-head of the emerging markets and high yield debt and derivatives division.

"ING Barings has a long tradition of leadership in Latin American debt markets, and we are delighted that Gabriel is joining us to help build on our successes in the region," said Berenguer.

William Lewis

Turner appoints fund directors

Ted Turner, billionaire founder of CNN, environmentalist and spouse of Jane Fonda, the actress, has named the board of directors who will help him carry out his well-publicised pledge to give $1bn to the United Nations.

Tomorrow the body he has set up to give the money away – the United Nations Foundation – will announce where the first grants will go.

The board will be headed by Turner, who turns 60 this year. It also comprises Ruth Cardoso, Brazil's First Lady and a noted academic; Emma Rothschild, London-born economic historian and fellow of King's College, Cambridge; Maurice Strong, secretary-general of the 1992 Earth Summit and long-standing Canadian government official now active in business; Timothy Wirth, a former US senator from Colorado and US under-secretary of state for global affairs from 1993-97; Andrew Young, former top aide to Martin Luther King, President Jimmy Carter's ambassador to the UN and two-term mayor of Atlanta; and Mohammad Yunus, founder of Bangladesh's Grameen microfinance initiative.

Wirth will manage the operations of the foundation, which will have offices in Washington and New York.

Stephen Fidler

Moving places

● Andrew Feldman is joining Rabobank International as head of investment banking for the Americas, based in New York. He is moving from Chase Manhattan, where he was head of derivatives marketing in the Americas. Feldman will also be head of sales for fixed income and derivatives.

● NIKKO SECURITIES GLOBAL HOLDINGS has made two new appointments in its group risk division. Carol Alexander is joining as a director to head the market modelling group. Until recently, she was a lecturer at the University of Sussex and was academic director of Algorithmics. Bernard Peh is joining as a director to set up a credit modelling group in the group risk division. Peh is transferring from Nikko Asia in Hong Kong.

● SALOMON SMITH BARNEY has appointed Kozue Kanamori vice-president in fixed income sales where she will be responsible for covering Japanese Institutions in Europe. Kanamori joins the firm from Merrill Lynch.

● Stephen Lui has been appointed director and vice-president – Chinas/Korea, SMITHKLINE BEECHAM INTERNATIONAL. Lui has held many positions in the pharmaceutical industry. In 1996 Lui founded his own consultancy for developing non-competitive opportunities in Greater China, while t at the same time he continued his involvement with Zeneca China as non-executive vice-chairman. He is currently the chief representative of the China Britain Trade Group for Southern China and is vice-chairman of the British Chamber of Commerce in Hong Kong and chairman of its China Committee.

● MONSANTO has recently announced that Bernard Auxenfans, currently executive vice-president and general manager of the agricultural sector, will assume additional responsibilities as chief operations officer, Monsanto Ag Sector, and co-president, Europe/Africa World Area, Monsanto.

● ANDERSEN CONSULTING has promoted William Green to global managing partner for its newly-formed resources market unit.

● Niels Conradsen, 39, has been appointed group sales and marketing director of REGUS, Europe's largest operator of fully serviced business centres. He was formerly head of sales for TNT Worldwide.

● IOMEGA CORPORATION has announced the appointment of Jim Taylor as executive vice-president, global sales and marketing and William Hake as vice-president, Worldwide OEM sales. Taylor was corporate senior vice-president and president, marketing services at Gateway 2000. Hake joins Iomega from Seagate Sales and Technology Corporation.

● HARLEY-DAVIDSON has appointed John Russell vice-president and managing director for Europe. Russell, a former director of Rover Group, will have responsibility for all of the company's business activity in Europe, the Middle East and Africa. In 1996, Russell resigned from the Rover Group to lead a team of Warwick University consultants on a turnround project for India's largest textile mill.

● Barbara Bufkin has been named head of a new privatization business development group formed by Swiss Re New Markets Corporation. Bufkin is a Dallas-based director of Swiss Re New Markets and chief executive of the Facility Insurance Corporation, a recently privatised workers compensation insurance facility based in Austin, Texas.

BUSINESS AND THE LAW

UK firm in landmark public securities deal

Allen & Overy has broken a US stranglehold on advising underwriters, says **Richard Forster**

After a well-documented propaganda war between US and UK law firms, Allen & Overy has become the first UK international law firm to complete a public securities deal in the US advising a group of US underwriters.

The global issue of $500m 6.2 per cent global notes due 2003 by Bear Stearns and launched on March 21, marks a psychological breakthrough in the battle for international securities work.

The global note issue, which was registered with the US Securities and Exchange Commission (SEC) and listed in London and Hong Kong, has broken the mould for UK firms.

Jeffrey Golden, head of the US law group at Allen & Overy, said: "The underwriters are properly characterising the Bear Stearns notes as 'global'. One jurisdiction did not have a monopoly on all the relevant issues.

"The fact that we could cover US, English and Hong Kong law advice under one roof proved to be a tremendous advantage.

"When accessing the global capital markets, clients will understandably be nervous if they see a law firm that feels duty bound to wave a home country flag to protect its patch," he said.

US lawyers have been successful in the past in keeping the English firms out of their market by talking up the need for experience in handling the SEC, by arousing fear over relying on a UK firm's opinion in case of litigation by US investors, and by pointing to the lack of in-depth US tax and disclosure experience among UK firms.

Indeed, UK international law firms report that US lawyers are still trotting out these arguments to US banks.

A recent survey by International Financial Law Review of advisers on international bonds confirmed that UK firms had still not done US public deals for their underwriter clients despite four to six years' investment in US securities capability (see table).

The issue was done off the bank's US domestic shelf programme

So does the Allen & Overy deal represent a landmark in global legal services?

The UK firm advised bookrunner Bear Stearns and a who's who of US banks including Lehman Brothers, Morgan Stanley, Chase Manhattan, Salomon Brothers and Citibank.

Bear Stearn's regular US counsel, Kramer Levin Naftalis Nessen Kamin & Frankel, lacked the global reach for the debut international issue by the US bank and would have needed to work in tandem with international counsel. So the banks sought a single firm as outside counsel.

The fact that they turned to a UK law firm rather than US counsel should not be underplayed – due diligence had to be done on the US parent to SEC standards and 65 per cent of the issue was placed in the US.

On previous Yankee and global deals lead managed by the bank, New York heavyweights Simpson Thacher & Bartlett and Cravath Swaine & Moore had been counsel to Bear Stearns.

The issue was done off the bank's US domestic shelf programme. Allen & Overy having advised on the setting up of Bear Stearns' Euro Medium Term Note programme.

"It is part of a trend, because a number of issuers have US programmes and Euro programmes and it does not make sense having the cost of two if you can have a single programme," said Andrew Ballheimer, the capital markets partner with Allen & Overy in New York who led the firm's team on the Bear Stearns deal.

"The clients have the choice of having two firms – the US firm for the US aspects and an English firm for the English aspects – or of coming to us who can handle both aspects.

"People recognise that our US team is of high quality and at least as good as the people at the principal US firms," he said.

Having hired 40 US-qualified lawyers in four years based in New York, London, Milan and Hong Kong, Allen & Overy has overcome the objections of US clients to accepting the legal opinion of a non-US law firm for public deals.

This opinion, known as the 10b-5 opinion in reference to the federal anti-fraud rule of the 1934 Exchange Act, is assurance by the lawyers that there is nothing that has come to their attention which is misleading about the information disclosed to investors, or, for that matter, information omitted by the issuer.

Fear of US investor litigation means that market practice on disclosure differs little whether the deal is public (SEC registered) or private (done under Rule 144A). But until now US lawyers at UK firms had been restricted to representing underwriters on private Rule 144A deals sold to US pension funds and insurance companies.

'Our US team is at least as good as the people at the principal US firms'

"The only issue is if the 10b-5 opinion is acceptable to the client, and if it is acceptable on the Rule 144A deal how can it not be on the registered deals? The true significance of this deal is that the artificial barrier has come down," said Mr Ballheimer.

As well as US and English opinions, the firm also provided the underwriters with advice on the Hong Kong listing. The transaction opens up the possibility for more global bond deals for UK firms, particularly for US issuers wishing to combine US domestic offerings with international placements. For that reason it must be seen as a landmark in global legal services.

It remains a big step for a UK firm to act as sole underwriters' counsel on the headline flotations or privatisations that have significant placings of securities in the US public market, but Allen & Overy is understandably bullish.

"Our vision of an integrated, high quality, global legal service has been recognised and is required by the market," said Mr Ballheimer.

The author is the editor of International Financial Law Review.

Sound advice: the UK leads the way

Legal advisers to lead managers of international bond issuance in 1997

Law firm	Europe	LA	Asia	Africa	US/Can	Other	Total issues	Euro	Euro 144A	Global
	Geographical breakdown of issuance							Market type		
1 Linklaters (UK)	114	15	83	–	3	7	222	184	38	–
2 Allen & Overy (UK)	115	4	56	5	5	9	194	181	13	–
3 Clifford Chance (UK)	61	9	16	2	1	11	100	84	16	–
4 Hengeler Mueller Weitzel Wirtz (Ger)	38	–	3	–	–	–	41	39	2	–
5 Cleary Gottlieb Steen & Hamilton (US)	10	4	5	–	3	1	23	13	8	2
5 Shearman & Sterling (US)	8	5	2	1	6	2	23	6	15	2
7 Davis Polk & Wardwell (US)	8	5	8	–	1	–	22	7	12	3
8 Baker & McKenzie (US)	2	–	18	–	–	–	20	17	3	–
8 Bruckhaus Westrick Heller Lober (Ger)	14	3	3	–	–	–	20	20	–	–
10 Sullivan & Cromwell (US)	–	12	2	–	5	–	19	4	9	6

Tables based on IFLR's own research and do not purport to be exhaustive. Table refers to issues of Euro and Global bonds for 1997. Key: LA = Latin America; US/Can = US or Canada. Nationality of the issuer is taken into account even where done through offshore vehicle. Firms are credited as adviser to lead manager both on governing law or as US or international adviser assisting on disclosure and due diligence. Non-syndicated, unlisted deals are not included. Global deals are those offered in the US public and Euromarkets.

Source: International Financial Law Review

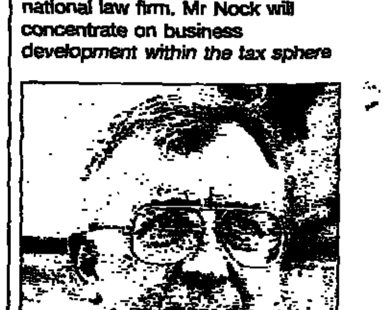
LEGAL BRIEFS

White & Case trio join New York office of Linklaters

Truman Bidwell, Marianne Rosenberg and Robert Smith, former partners of White & Case, the US international law firm, have joined the New York office of Linklaters, the UK international law firm. The three US lawyers, who joined Linklaters last week, are recognised worldwide as one of the strongest US-based asset finance teams. Linklaters' current US practice worldwide comprises nearly 40 securities and tax lawyers, 17 of whom are based in New York.

Tax head named

Reg Nock, a former barrister and tax lawyer with Deloitte & Touche, the accountants, has been appointed head of tax in the London office of Eversheds, the national law firm. Mr Nock will concentrate on business development within the tax sphere as well as continuing to offer his specialist expertise in stamp duty. His arrival takes Eversheds' corporate tax group in London to 10 lawyers.



Reg Nock: stamp duty specialist

Taiwan expansion

Baker & McKenzie, the world's largest law firm, is opening a second office in Taiwan. Based in Hsin Chu, 90 miles south of Taipei, the new office is designed to take advantage of the rapid growth of computer and computer-related industries in Hsin Chu's industrial park. The Hsin Chu office is the firm's 59th office around the globe and its 12th in the Asia-Pacific region. The new office will be fully integrated with the firm's Taipei office, opened in 1977, and the combined operation will consist of 45 lawyers.

Double taxation convention in line with treaty

European court

The double taxation convention between Germany and France was not contrary to Treaty of Rome rules on equal treatment and free movement of workers, the European Court of Justice ruled last week.

The case arose out of an application by Mr and Mrs Gilly in the Strasbourg Administrative Court challenging the amount of tax Mrs Gilly had been charged by the French authorities.

The Gillys lived in France, near the German border. Mr Gilly, a French national, taught in a state school in France. Mrs Gilly, a German national who had also acquired French nationality by marriage, taught in a state school in the frontier area of Germany.

France and Germany had signed a convention to avoid double taxation. It was applied to Mrs Gilly to calculate the tax credit to be set-off in France against the tax she paid in Germany.

The Gillys argued that the application of the convention had resulted in unjustified, discriminatory and excessive taxation, incompatible with the treaty. The Strasbourg court referred the matter to Luxembourg.

The European Court ruled first that although the abolition of double taxation within the European Union was among the treaty's objectives, it did not confer on individuals any rights which they could rely on before their national courts.

The Court then considered whether the treaty's free movement of workers provisions precluded the application of measures such as those in the convention.

Those provisions stipulated that the tax regime applicable to frontier workers differed depending whether they worked in the private or public sectors.

Where they worked in the public sector it also depended on whether they had only the nationality of the state employing them. The regime for teachers also differed depending whether their residence in the state they were teaching in was short or not.

The Court said the issues raised by the Gillys fell within the scope of the treaty rules on free movement of workers. It noted there was not yet a harmonising measure for the elimination of double taxation at the EU level.

Member states therefore remained competent to determine the criteria for taxation on income and wealth with a view to eliminating double taxation.

The convention's nationality criterion could not be discrimination under the treaty, as it flowed from the contracting parties' competence to define the criteria for allocating their taxation powers as between themselves with a view to eliminating double taxation.

Nor was it unreasonable for member states to base bilateral agreements on internationally accepted practices and principles, such as the paying state rule.

Under that rule, remuneration paid to a person having the nationality of the other state without also being a national of the first state, is taxable in the taxpayer's state of residence.

Therefore the free movement of workers' rules did not preclude the application of provisions such as those in the convention.

The Court considered the Gillys' submission that the tax credit mechanism penalised those who exercised their freedom of movement in that it allowed an element of double taxation to remain. It said the object of the convention was simply to prevent the same income from being taxed in each of two states, not to ensure the tax to which the taxpayer was subjected in one state was no higher than that which they would have been subjected to in the other. The treaty did not therefore preclude the application of a tax credit mechanism, such as that in issue.

C-336/96: Gilly v Directeur des Services Fiscaux du Bas-Rhin, ECJ FC, May 12 1998.

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1. Article 8 of Law 2330/1995 "Arrangements for the Restructuring of the Bank of Crete S.A." (Government Gazette 172A'); and
2. Joint Decision of the Minister of National Economy and Finance, and the Governor of the Bank of Greece, No. 610/B.316/24.2.98(G.G. 198B/4.3.98)

we announce the sale, by international public tender, of the Bank of Crete ("Cretabank"), according to the following procedures, criteria and terms.

The object of sale is 97% of the total number of common voting shares and 100% of the non-voting preference shares of the Bank of Crete S.A., to be sold as a single block.

Cretabank was founded on 1.1.96 and has a network of 87 branches throughout Greece, connected by an On-Line-Real-Time system,, and 1,485 employees, of which 183 are Officers of the Bank (Area Directors, Managers and Assistant Managers of the branches and divisions). The Bank's Balance Sheet at 31.12.97 showed assets of GRD 406.8 billion, loans and advances of GRD 199.6 billion and deposits of GRD 341.7 billion. Cretabank's subsidiary companies are mainly active in the area of insurance, securities and mutual funds.

For the intended sale there will be no reserve price. The offered price shall be paid in a single cash payment within one month of the finalisation of the auction, or in instalments over a maximum of four (4) years, *with an initial down payment of no less than 30% of the final price. The down payment must* be paid within one month of the finalisation of the auction.

Initial bids including all necessary documentation must be submitted at the latest by 14:00 hrs on Monday, June 29, 1998. The bids will be submitted by hand at the offices of the "Under Liquidation Old Bank of Crete (Law 2330/95)", 20 Voukourestiou Street, 3rd Floor, Athens 10671, Greece (Tel +301 3641240 Fax +301 3642162) between 09:00 and 14:00 hrs, Monday to Friday, The sealed bids will be received, with receipt acknowledged, only by Messrs. Vasileios Stambolitis or Ioannis Kokkolios. Bids received by the authorised persons, in any other way later than 14:00 hrs on June 29, 1998, including those dispatched on an earlier date, will not be considered.

The UK based investment bank CHARTERHOUSE BANK LIMITED and CCF FINELY S.A., a subsidiary of the French investment bank Credit Commercial de France S.A., have been appointed to act as joint advisors to the vendors on the sale of Cretabank.

To obtain the full text of the announcement, and any further information, please contact:

Paul Baines	*Francois Lagrae*	*Julia Karga*
Charterhouse Bank Limited	CCF Finely S.A.	Bank of Crete S.A.
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This advertisement has been issued by the Liquidator of the Under Liquidation Old Bank of Crete (Law 2330/1995), who is the person responsible for the information contained in it. Charterhouse Bank Limited, which is regulated in the United Kingdom by the Securities and Futures Authority, has *approved this advertisement for the purpose of Section 57 of the Financial Services Act 1986 for* issue in the United Kingdom.

Athens, May 14 1998

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Kent County Council

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At its meeting on 26 February, the County Council ratified a decision by its Social Services Committee to offer for sale as going concerns 24 residential homes for the elderly. The homes are situated in east, mid and west Kent and currently provide a total of 910 bed spaces. In addition, 20 of the homes provide day services on site.

The homes will be offered for sale in lots. While bids for single homes will be considered, preference will be given to those parties seeking to acquire homes in the specified lots.

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The County Council proposes transferring the homes through a two stage tendering process. At the first stage, interested parties will be invited to register their interest in the homes. Suitably qualified applicants will then be shortlisted and invited to formally tender for the purchase of the homes.

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SALEROOM AUCTIONS IN NEW YORK

Mix and match of masters pays off

Antony Thorncroft reports on the big Impressionist and Contemporary art sales

The international art market is in fine shape. Last week in New York, Christie's and Sotheby's fielded all that the fates could throw at them and succeeded in selling important Impressionist, Modern and Contemporary art with profitable ease.

For Christie's, the challenge was to persuade collectors that its new date lines, under which Impressionists such as Monet and Renoir are relegated to the 19th century to sell alongside traditional masters like Courbet, while Picasso and Matisse are considered modern enough to be included in a 20th century sale with Warhol and Rothko, made artistic sense. It succeeded to the tune of $61.3m, well up to its most optimistic expectations.

Sotheby's had to contend with a New York taxi drivers' strike on Wednesday for its traditional sale of Impressionist and Modern art, and the last episode of *Seinfeld* on Thursday when it sold Contemporary art. It took the precaution of broadcasting the cult TV show in its rooms, but in the event the audience was riveted enough by the paintings. Indeed, the $17.3m paid for Andy Warhol's "Orange Marilyn" was the event of the week.

The fierce bidding by two prospective buyers for Warhol's silkscreen painting, which was expected to make around $5m, reminded some observers of the climax of the 1980s art boom, when investment-crazy collectors forced prices to unsustainable heights, leading to the subsequent collapse.

At the moment the market is strong, with demand for the finest works exceeding supply, but without the speculative frenzy. It is this buoyancy in the most profitable sector of the art trade which has encouraged François Pinault, the French billionaire and contemporary art collector, to make a bid yesterday for Christie's; a bid which the Christie's board favours.

One great difference this time round is that the new collectors are being advised by consultants, many of whom are former Sotheby's and Christie's specialists, who know the current value of the art and how the auction houses work. The other change is the serious attitude to art of the would-be buyers – the earlier speculative element is absent.

The Warhol was a sensation at $17.3m, but the anonymous buyer got a bargain

With demand so buoyant, both Sotheby's and Christies's rued the fact that there were no magnificent estates to sell this month. The one major collection of offer, nine paintings sent for sale by Margit and Rolf Weinberg, the Zurich retailers, sold for $11.3m, with Courbet's portrait of Whistler's mistress, Joanna Heffernan, making a record $2.97m.

Christie's kept reserves low on Tuesday, which enabled it to find a buyer for a Modigliani portrait for $4.8m when its pre-sale high estimate had been an ambitious $8m. An earlier Modigliani in the auction had attracted the stronger bidding, selling for $5.39m.

Christie's must be pleased that the innovation of placing later 20th century artists – Warhol, Rothko, and Diebenkorn – alongside the earlier masters like Braque and Picasso, paid off. The main reason for changing the date lines is to get conservative buyers interested in new sectors, which was confirmed when a collector of contemporary art bought a Cubist work by Braque for $4.1m. The only record achieved in the auction was the $1.81m paid for an abstract landscape by Diebenkorn.

Sotheby's brought in an encouraging $77.9m on Wednesday night, with one of Monet's views of the Grand Canal in Venice making the top price of $12.1m. At the peak of the market in 1990 the same painting had only managed $9m. Its new owner is believed to be Paul Allen, the co-founder of Microsoft. He is advised by former Sotheby's specialist, David Nash. Some artists, however, are still below their 1980 levels – a typical Renoir, of pretty girls bathing, sold last week for $3.4m: in 1990 it had fetched $6.2m.

Both the Monet and the Renoir were off-loaded by Japanese owners: the auction houses are now prepared to dispose of the best of the vast haul of paintings, valued at $6bn, which have languished in Japanese bank vaults for the past decade, but few show a profit.

One problem for the auction houses is that the finest works of art are disappearing into museums or inviolate collections. Hence their interest in promoting contemporary art, where there is a constant supply. In New York they hardly have to convince buyers that contemporary art, often American, is highly desirable. The tension at Sotheby's contemporary sale was more electric than at the earlier auctions, and totalled $35.6m, way above Sotheby's $25.5m top forecast.

The Warhol was a sensation, but auctioneer Tobias Meyer believes that the anonymous buyer got a bargain. "It is one of the great icons of 20th century art comparable to a major Picasso." Also in the auction was Lucian Freud's portrait of his daughter Bella enjoying a party in Notting Hill Gate with some friends in 1982. It sold for $5.8m (£3.57m), easily a record for a work by Freud or for any living British artist. In 1983 its owner, Freud's former dealer James Kirkman, had offered it unsuccessfully to the Tate Gallery for a reputed £250,000.

The success of last week's auctions will convince both Sotheby's and Christie's that their ambitious plans for expansion in New York are well founded. The two auction houses are investing in extensive new buildings – Sotheby's on the top of its York Avenue premises; Christie's on a new site at the Rockefeller Centre.

And Sotheby's is already developing in new directions, principally through boosting its activities in private treaty sales on behalf of owners. Such transactions may lack the excitement of the auction, but are another step in Sotheby's and Christie's master plan to take over the art world.

A special eight-page FT Summer Arts guide will be published on Saturday, May 23 in the Weekend FT.

Buoyant market: 'Buste de Femme' by Pablo Picasso: sold by Christie's for $3.3m last week

MUSIC

Spry, sly and elegant

The London Sinfonietta recently celebrated the music of Hanns Eisler (1898-1962) – one-time pupil of Schoenberg, long-term collaborator with Brecht, exiled by the Nazis, victimised by the House Committee on Un-American Activities and finally honoured (cautiously) in East Germany. In the sense of the old Chinese curse, he certainly "lived through interesting times".

The Sinfonietta had the considerable assistance of the conductor, composer and *chansonnier* H.K. Gruber. At the afternoon session he and the composer David Blake reminisced about Eisler, while pianist John Constable, mezzo Mary King and three other singers offered a neat conspectus of early Eisler. We heard his bright, op. 1 piano sonata from the Schoenberg days, and a pair of highly personal song-cycles composed after he broke with Schoenberg.

In the evening Gruber conducted the Sinfonietta, with his customary fervour, in later Eisler. The astringent *Kleine Sinfonie* op. 29 combines Schoenberg technique with political marching-song and theatre-music. In songs, choruses and *scenas* from *The Mother*, adapted by Brecht from Maxim Gorky as bitter theatrical agitprop, Gruber served also as *chansonnier*, abetted by Maria Freedman and Omar Ebrahim.

It was delightful to hear the NatWest Choir, along with the CYM Chamber Choir, delivering the calls to revolution with such full-throated ardour. It was also delightful to hear Gruber more like his sly Viennese self in four long "couplets" that Eisler wrote for a Nestroy play in 1948: spry as well as sly, and rather elegantly turned.

Finally, we had a sort of Gruber premiere, at least for the UK: a newly extended version of his 1996 cycle *Zeitstimmung* – officially translated as "Time-shadow", which I suppose is a fair shot at an impossible target. The same could be said of the English translation, which labours under the burden of having to answer to Gruber's wild flights of *Sprechstimme*-plus in his original German setting.

The poems are by the ironical Viennese poet H.C. Artmann, as in Gruber's earlier *Frankenstein!!*, but not mock-childish this time – mock-fabulous, rather, and suggestive of dark morals. Gruber's orchestra again rocks with smoochy, hallucinatory dance-rhythms, vibes, saxes and marimba, but instead of toytown colours there are mock-orientalisms to mask the uncomfortable meanings. Though it sounded gorgeous and mad, I thought the English version too much of an aesthetic effort, a distraction. The composer's "bizarreries" are really anchored in the original text, and go adrift in another tongue.

David Murray

An artist in suspension

William Packer reviews the installations of Cornelia Parker

Cornelia Parker has latterly become one of the more consistently conspicuous and successful of our Young British Artists, perched so precariously at the cutting edge of creativity, whom the Arts Council and significant Modern Collections think it so necessary to support.

At 42, she is not so very young, but her career burgeoned in the late 1980s, coincidental with the new wave of conceptualism; and timing, we know, is everything. Now, after her inclusion in Biennales abroad and nomination for the Turner Prize at home, her elegant and seductive retrospective at the Serpentine, of work of the last 10 years or so, would seem to be the confirming compliment.

She is conventionally described as a sculptor, but in fact she makes nothing herself. Indeed, she goes to great lengths to avoid making anything, as the titles to her art-works so often make clear. A show at Cardiff a year or two ago was called *The Avoided Object*. She calls a whole class of her work "Altered States". What she does is to find odd things, bits and pieces, play around with them, do things to them, and re-present them.

The first important art-work of hers to be acquired by the Tate, for example, "Cold Dark Matter", was an old garden shed which, with its contents, she persuaded the British Army to blow up. Having picked the shattered fragments out of the surrounding fields and hedges, she hung them all, or at least as many as she could find, from the ceiling of the gallery, each by its own thread, with the whole dangling mass lit from the centre by a single bulb. It worked, I must admit, to dramatic, deeply-shadowed effect.

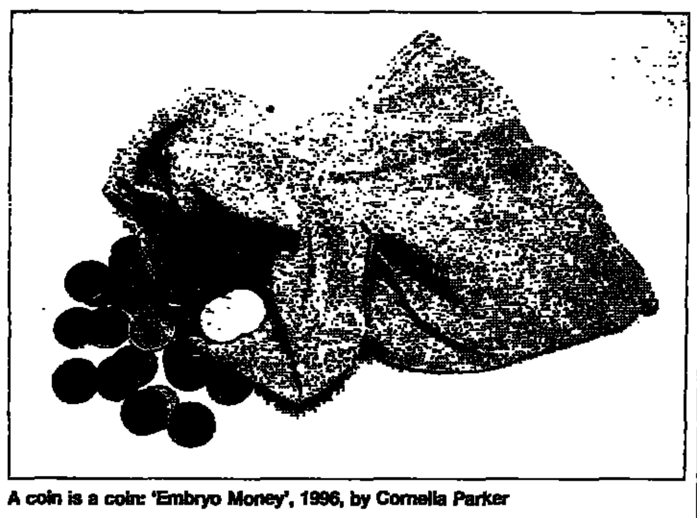
'Cold Dark Matter' was an old garden shed which, with its contents, she persuaded the British Army to blow up, and then hung the shattered fragments from the Tate's ceiling

Last year the single most popular work at the Tate's Turner Prize Exhibition was her "Mass (Colder Darker Matter)", which was a similar suspension, this time of blackened beams salvaged from a burnt-out Texan church that had been struck by lightning. In 1995, in "The Maybe" at the Serpentine, she had the actress, Tilda Swinton, Beauty-like, asleep for days on end in a glass case. And this perhaps is the problem. It is all very striking, very dramatic, rather beautiful – at least at first. The effect is everything.

This new Serpentine show includes other of what Lisa Corrin, the new curator at the gallery, calls her "classic suspended installations." "Thirty Pieces of Silver" (1989) consists of 1000 miscellaneous items of silver plate that were run over by a steam-roller. Hung just off the floor in 30 circular sets, their only properly sculptural interest rests upon the flat, horizontal plane they establish within the space. As objects, they are seductive and intriguing, swaying gently in the draught, glinting in the sun. But for Parker, the interest is principally narrative and symbolic. The "former life" of these objects, we are told, was "symbolically crushed out", leaving them as "both diagram and blueprint: things as they were; things as they are; things as they can be."

Another suspension, "Matter and what it means" (1989) consists of innumerable 10 pence pieces that had been laid on the line to be flattened by the passing train. The pile of coins on the floor follows a vaguely human outline, above which hover an accumulation of coins on strings, which could be two featureless bodies, shimmering with a sepulchral beauty within the darkened room. It tells us of mortality, vanity, and the pointlessness of human greed. For me, it called something more natural and unaffected to mind – the shroud of ivy over the grave of Van Gogh and his brother.

Parker has suits and dresses shot through with pearls and coins, which she hangs proudly up to show the holes. She polishes the inside of armour once worn by Henry VIII, and shows us the newly-stained cloth she used. She has a silver dollar drawn portentously into a wire equivalent in length to the height of the Statue of Liberty. She smashes a coffin into splinters, the only time she has ever used hammer and chisel. She has created a new work specifically for this show, "Room for Margins", from the unseen margins and linings of Turner's canvases, "challenging us to conjure the originals in our mind's eye."



A coin is a coin: 'Embryo Money', 1996, by Cornelia Parker

Such are her works of art. But the back of a canvas is still the back of a canvas, a wire a wire, a coffin-splinter a piece of wood, a coin is a coin. "This is what I enjoy about my life as an artist", she says. "I can go to the Colt firearms factory and discuss with engineers shooting pearls and money from guns instead of bullets... somehow I'm allowed the privileged position to look around... That's why I make art. It's a way of experiencing the world that I couldn't possibly have if I was sitting at home working in a studio..." There is really nothing more to say.

Cornelia Parker: Serpentine Gallery, Kensington Gardens, London W2, until June 14: sponsored by Credit Suisse First Boston.

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Tosca: by Puccini. New production by Nikolaus Lehnhoff with a cast including Bryn Terfel. The conductor is Riccardo Chailly; May 19, 22

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
● Berlin Philharmonic Orchestra: conducted by Emmanuel Krivine in works by Beethoven and Tchaikovsky. With violin soloist Gil Shaham; May 19
● Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Bartók and Brahms. With soloist András Schiff; May 23, 24

BONN

EXHIBITIONS
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
www.kah-bonn.de
The Iberians: display of 350 objects made, between the sixth and the first century BC, by a little-known civilisation on the west of the Mediterranean bowl. Some of these objects have never before been removed before from the sites of their excavation. Others have been loaned by Spanish and French museums; to Aug 23

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
● Il Ritorno d'Ulisse: by Monteverdi. New production conducted by Philippe Pierlot in a staging by William Kentridge. With the Handspring Puppet Company, at the Lunatheater; May 19, 20, 22
● L'Orfeo: by Monteverdi. New production conducted by René Jacobs and directed and choreographed by Trisha Brown, with designs by Roland Aeschlimann; May 19, 20, 21, 22, 23

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: conducted by Franz Welser-Möst in works by Brahms and Shostakovich. With piano soloist André Watts; May 19
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in Beethoven's Symphonies Nos. 3 and 4; May 22, 23

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Songs on Stone: James McNeill Whistler and the Art of Lithography. Around 200 works by the American expatriate, including drawings, etchings and paintings, which demonstrate the importance of lithography to his art and theory; to Aug 30, then transferring to Ottawa

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
Le Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETI-Teatro della Pergola; May 21, 23

GENEVA

CONCERT
Victoria Hall
Tel: 41-22-3170017
Orchestre de la Suisse Romande: conducted by Edmon Colomer in works by Turina, Ravel and Falla. With piano soloist Alicia de Larrocha; May 20

LONDON

CONCERT
Royal Festival Hall
Tel: 44-171-960 4242
The Royal Opera: Die ägyptische Helena, by Strauss. Concert performance, conducted by Christian Thielemann. Cast includes Deborah Voigt and Thomas Moser; May 22

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
● City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts a programme of works by Rameau, Haydn and Beethoven; May 20
● City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts works by Knussen and Mahler; May 21

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Der Freischütz: by Weber. Conducted by Donald Runnicles in a staging by Pier'Alli, with a cast including Kim Begley and Nancy Gustafson; May 19

MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
The Midsummer Marriage: by Michael Tippett. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; May 22

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
● New York Philharmonic: conducted by James Conlon in works by Rachmaninov and Liszt. With piano soloist Garrick Ohlsson; Avery Fisher Hall; May 19
● New York Philharmonic: conducted by Kurt Masur in Shostakovich's Symphony No. 7, "Leningrad"; Avery Fisher Hall; May 21, 22, 23

EXHIBITIONS
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
Visions of Paris: Robert Delaunay's Series. Previously seen in Berlin, this exhibition focuses on the series paintings made by the artist in Paris, of subjects including Saint-Séverin and the Eiffel Tower; to May 24

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Augustin Pajou, Royal Sculptor: retrospective devoted to works by the French sculptor (1730-1809), who was a favourite of Louis XV and Louis XVI. Includes marble statues, portrait busts, terracotta sketch-models, and drawings including designs for the opera at Versailles; to May 24

Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Alvar Aalto: Between Humanism and Materialism. Centenary tribute to the Finnish architect, designer and town planner. Unprecedented in scale, the show includes sketches, drawings, models and photographs, many of them loaned by private collections in Europe; ends today

OSAKA

EXHIBITION
The Museum of Art, Kintetsu
Tel: 81-6-624 1111
Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. The exhibition marks the centenary of his tragically early death, and arrives in London after touring in Japan; to Jun 8

PARIS

CONCERT
Théâtre des Champs Elysées
Tel: 33-1-49525050
Orchestre National de France: conducted by Vassili Sinaïsky in works by Haydn, Saint-Saëns and Beethoven. With cello soloist Han Na Chang; May 19

EXHIBITION
Jeu de Paume
Tel: 33-1-4703 1250
In defiance of painting: "Je ne peins pas, je cloue mes tableaux", wrote Kurt Schwitters. This century has seen many artists forsake their brushes in favour of a variety of other implements. Burri, Fontana and Arman are some of the artists represented in this exhibition, which proposes to explore this dimension of painting; from today until Aug 30

ROTTERDAM

EXHIBITION
Kunsthal
Tel: 31-10-440 0300
Look at me: Fashion and Photography in Britain 1960 to the present. First stop for a touring exhibition which tracks the development of fashion photography with its emphasis firmly on popular culture rather than haute couture; to Aug 9

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Mozart, Lukas Foss, Stravinsky and Berg; May 20, 22, 23

TV AND RADIO

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13.30: Business Asia
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

Wealth of nations

At 50, the Gatt and its successor the WTO have much to be proud of. The question now is how to build on their success

"Enduring peace and the welfare of nations are indissolubly connected with friendliness, fairness, equality and the maximum practicable degree of freedom in international trade." Cordell Hull, US secretary of state, 1937.

For half a century two institutions have been at the heart of the rapidly growing body of international trade. They are the General Agreement on Tariffs and Trade (Gatt) and, since January 1995, its successor, the World Trade Organisation. From an inauspicious start Gatt and the WTO have come to have a greater impact on the world than any other international economic institution. The question confronting this week's 50th anniversary meeting in Geneva this week is how to sustain – and develop – that success.

Success it has certainly had. Only 23 countries participated in the first round of negotiations, in 1947. Today, its successor, the WTO, has 132 members, with 31 waiting to join. Between 1950 and 1996, the volume of world exports rose 16 times, while output rose six times; even more incredibly, the volume of world exports of manufactures rose 31 times, while manufactured output rose nine times.

The initial task was to reverse the damage to international economic integration done by the great depression and the second world war. That had been largely achieved by the 1970s. Since then, as the table shows, openness to trade has reached unprecedented levels.

Yet past success must not breed complacency. The failure of Bill Clinton, the US president, to win fast-track negotiating authority from Congress, the popular – and populist – campaign against globalisation and the financial shock in east Asia all threaten what has been, and can still be, achieved.

If the system is to be defended and strengthened, it is necessary to understand what it is: why it has gained in influence; what opportunities it enjoys; and what dangers it must now confront.

First, on what principles is the system based? Perhaps the most common criticism is that it simply reflects outmoded economic theories. True, economists have long argued in favour of liberal trade on *a priori* grounds. Contrary to widespread popular misunderstandings, those theories, including comparative advantage, remain as valid as ever, as Douglas Irwin of Dartmouth College has argued cogently in a splendid history of the idea of free trade.*

In reality, however, the system has always been based on still wider considerations. The WTO rests on three pillars: negotiated liberalisation, leading to bound levels of protection – that is a fixed margin of protection; the spread of the benefits of greater market access to all members, through non-discrimination; and, underpinning all these, the rule of law. As the quote from Hull shows, the hope was that mutually beneficial trade, protected by international agreement, would promote prosperity and limit the capacity of partial economic interests to generate ruinous international conflict.

Second, why has the system strengthened over the years? Perhaps the most important reason is hard-won experience.

For the first three decades of the Gatt's existence, trade liberalisation was limited almost entirely to north America and western Europe. Meanwhile, most developing countries tried the combination of planning with autarky that the Soviet Union and its satellites took to a logical conclusion. The important exceptions were the export-promoting policies of Japan, South Korea and Taiwan and the purer free trade of Hong Kong and Singapore.

Collapse and recovery

Merchandise exports as per cent of GDP at 1990 prices

	1913	1929	1950	1973	1992
US	3.7	3.6	3.0	5.0	8.2
Western Europe	16.3	13.3	9.4	20.9	29.7
France	8.2	8.6	7.7	15.4	22.9
Germany	15.6	12.8	6.2	23.8	32.6
Netherlands	17.8	17.2	12.5	41.7	55.3
UK	17.7	13.3	11.4	14.0	21.4
Japan	2.4	3.5	2.3	7.9	12.4
China	1.4	1.7	1.9	1.1	2.3
India	4.7	3.7	2.6	2.0	1.7
Korea	1.0	4.5	1.0	8.2	17.8
Taiwan	2.5	5.2	2.5	10.2	34.4
World	8.7	9.0	7.0	11.2	13.5

Source: Monitoring the World Economy, 1820-1992, by Angus Maddison. Published by the OECD.

The huge success of these Asian exceptions and the ever more obvious failure of those seeking self-sufficiency did, more than anything else, help produce the shift towards more open trade seen since the late 1970s. No fewer than 60 countries embarked on unilateral liberalisation during the seven years of the Uruguay round alone.

Third, what are the opportunities the system now enjoys? The short answer is to complete the edifice. The elements of that construction should include:

- Further liberalisation, to cover tariffs, agricultural commodities, textiles and clothing, services and public procurement.
- Widening WTO membership, particularly to embrace China and Russia.
- Strengthening WTO disciplines, especially over the mushroom-like growth of regional trading arrangements and over reliance on economically questionable anti-dumping.
- Strengthening the WTO as an institution, partly by increasing its budget from its ridiculously low level of $78m (£47m).

This is by no means the complete list. A broader agenda would include trade and the environment, trade and labour standards (not, fortunately, yet on the official agenda), investment and competition. But the first two are potentially damaging to liberalisation, while the third and fourth are, strictly speaking, unnecessary. The trading system may well, for want of a better instrument, be loaded with tasks that are not germane to its central purpose. But this counts not so much as an opportunity as a danger.

So what, finally, are the chief dangers confronting the system? Two in particular stand out.

The first is the need to separate the case for liberal trade from that for freeing capital flows. Although both are taken to be components of globalisation, liberal trade does not entail freedom for capital flows. Many high-income countries liberalised trade while retaining exchange controls until the 1980s or 1990s. The collapse in east Asia has merely underlined the dangers in premature and ill-regulated capital account liberalisation.

Still more fundamental is political legitimacy. Markets may be global, but governments are local. The rules governing the former and constraining the latter necessarily emerge from inter-governmental negotiations and are policed by international organisations. While inevitable, this also creates a disjunction between what citizens demand and what their governments can deliver.

As the rules of the trading system have become more intrusive and binding, conflicts have increasingly arisen between the irresistible force of domestic single-issue activism on the one hand and the immovable object of internationally agreed rules and procedures on the other. Environmentalists believe the rights of a Thailand or a Mexico are nothing compared to those of dolphins and turtles. Yet a global trading system cannot operate on that basis.

Can this danger be eliminated? No, but it can be ameliorated by better explanation of the rules, by greater transparency in WTO procedures, by commissioning and publicising research into links between trade and other concerns and, not least, by moving environmental and social issues into other forums.

Above all, people must be constantly reminded of history and contemporary realities. No country can be an economic island and none, even the US, can dictate terms to all the others. The only choice is between a chaotic international market, without global co-operation, and a relatively orderly marketplace, with it. The right choice was made by the Gatt's founding fathers half a century ago. It is our privilege and our opportunity to build on those foundations.

**Against the Tide: An Intellectual History of Free Trade, Douglas A. Irwin (Princeton: Princeton University Press, 1996)*

martin.wolf@ft.com

LETTERS TO THE EDITOR

Views on inflation and monetary policy in Europe too simplistic

From Mr Ronald Janssen.

Sir, Your article in which the European Central Bank board is reported as seeing inflation as a big threat is both astonishing and alarming ("ECB board sees inflation as big threat", May 9). Indeed, a number of arguments which the future decision makers on European monetary policy are advancing are simplistic and simply not true.

For one, the position that the risk of inflation exceeds the risk of deflation is in contradiction with the basic economic fact that monetary policy can play an important role in fighting inflation but not role in the case of deflation.

Since negative nominal interest rates are impossible (people would simply withdraw their money from banks and hold on to cash!), deflation imposes the risk of high real interest rates. Being unable to fight deflation, a central bank should therefore avoid at all cost moving the economy into such a liquidity trap.

Furthermore, the phrase that monetary policy is neither the cause nor the solution to Europe's unemployment problem conveniently ignores the fact that a record of poor growth in Europe coincided with a very restrictive stance of monetary policies from 1990 to the end of 1996. One can, of course, argue that the group of six is now putting on a show to convince financial markets and to reassure the German public on the introduction of the euro.

For the sake of the European economy, however, let us hope that the group of six does return to its senses when the business cycle threatens to push up inflation in the euro area from a historical low of 1.2 per cent to another historical low of 2 per cent.

If the "show" were continued and the European Central Bank cut economic growth to keep inflation at, say 1.5 per cent, the economy of the euro zone would have exchanged the "boom and bust" scenario of the 1970s and 1980s for a scenario in which the economy in the 1990s recovers from one slump only to go straight to yet another slump.

Ronald Janssen,
economic adviser, research department,
Christian Trade Union,
Westraat 121,
1040 Brussels,
Belgium

Market will determine future of Euribor

From Mr Clifford Dammers.

Sir, I was disappointed to see Lex repeating some of the (unfortunately) widely held perceptions about Euribor ("Libor/Euribor", May 15). The banks which will make up the reporting panel will be first-class professional banks. More importantly, the credit rating of the reporting banks will be irrelevant because the rates which are to be reported will be the rates which each reporting bank sees prime banks quoting to other prime banks in its market. They are not necessarily rates quoted to the reporting bank for deposits with *it*. This is the same basis on which the British Banking Association proposes to calculate euro Libor.

The International Primary Market Association is content with Euribor and Libor as successor price sources and expects there to be competition between them. Ultimately the preference of the market will determine whether only one will survive but misinformed comment does not contribute to the quality of that competition.

Clifford Dammers,
secretary-general,
International Primary Market Association (IPMA),
36-38 Cornhill,
London EC3V 3ND, UK

Policymakers and the power of the equity lobby

From Mr John Hardman.

Sir, Gerard Baker concludes his article, "When fears are overdone" (April 28), with the thought that "the real difficulty policy makers face [is] not how to engender a big correction [in the stock markets] but how to avoid it".

This raises several questions. Why should policy makers want to maintain current levels? Can it be done? They want to because more than half the wealth owned by private individuals in the UK and the US is now in the form of equities: equity holders accordingly form a lobby as powerful as were homeowners 20 years ago.

Second, it is in the interest of governments to encourage private pension schemes and that these investments should be successful. This, not "Goldilocks", is the new paradigm.

John Hardman,
Treefield,
83 Beech Road,
Hartford,
Cheshire, UK

Number One Southwark Bridge, London SE1 9HL

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PERSONAL VIEW DAVID SHEARER

The world's private armies

The recent controversy in the UK concerning "mercenaries" has opened a debate on the need to control and regulate private military companies

Behind the recent controversy in Britain concerning the role of "mercenaries" in Sierra Leone is the wider and more important issue of the privatisation of conflict and security. The plain fact is that military companies are playing an increasingly influential role in areas once the domain of sovereign states.

Military solution: the private sector has stepped into the vacuum

Some label these companies mercenaries. But the term has enflamed the debate and obstructed a better understanding of the reasons behind their existence. Banning them is neither possible – nor necessarily wise.

"Mercenary" is not a helpful word. International law has yet to come up with a definition of a mercenary that would withstand the rigours of a courtroom. Only 12 countries have signed the 1989 UN Convention on mercenaries. And even though UK legislation banning them dates back to last century, there has not been a single conviction in more than a 100 years.

The emergence of private military companies has outstripped both domestic and international policy to deal with them. The tendency is on the one hand to pretend they do not exist and on the other to recognise their importance and to seek covert dialogue. The result is a muddled worst of both worlds. No wonder the government is in the mire.

There is a need to engage with these companies. This is a first step to controlling and regulating them.

Sandline and other so-called military consultants may prove useful to UK and other western governments. Its assistance to Sierra Leone, for example, was in accordance with British foreign policy objectives. It supplied weapons and military expertise to an elected government of Sierra Leone that had been ousted by a military junta. The junta's favoured tactic of intimidation was to amputate limbs with machetes. Moral concerns over the use of a military company fade in comparison.

There is also little likelihood these companies will go away. Their growing role has coincided with the collapse of communism. Western governments have little strategic interest in intervening in other country's civil wars. The early optimism over UN peacekeeping has faded in the wake of the Somalia debacle which led to the embarrassing US withdrawal from that conflict. Neither is there much domestic appetite for a country's soldiers to fight in other people's wars.

Instead, the favoured western response is to impose sanctions. Unfortunately, sanctions seldom work.

With military force needed, but no government willing to provide it, the private sector has seized the opportunity and stepped into the vacuum. They are bolstered by military expertise available from the downsizing of western armies and an abundance of cheap ex-Soviet weaponry. They offer one of the few alternatives for a besieged government like that of Sierra Leone.

Most important, they have shown their effectiveness. Executive Outcomes, the South African company, has been a market leader. First employed in Angola by a government under threat from the Unita, within a few months of its presence the government reversed its succession of military defeats prompting the signing of the Lusaka accords. In May 1995, it was contracted by Sierra Leone's government and was the main factor behind turning its fortunes against the Revolutionary United Front rebel group. That has allowed the first elections in 27 years and the signing of a peace agreement.

A larger group of companies conduct military training to recognised governments. The US company Military Professional Resources, headed by more than a dozen former US generals, is training both the Bosnian and Croatian armed forces. Others, such as BDM, linked with the Carlyle Group of James Baker, the former US secretary of state, have been training various parts of the Saudi Arabian forces. The US companies are more directly integrated into the US defence establishment and serve foreign policy interests.

Beyond this military-orientated category, the security industry broadens out into wider non-military protection functions, such as the passive protection of premises, mining installations and individuals. The British company DSL, for example, guards corporate and diplomatic premises throughout the world. Others have specialised in risk analysis for companies wanting to invest in unstable areas or provide protection from potential kidnapping.

Most British companies keep close contacts with the Ministry of Defence. Many of their personnel have risen through the military or intelligence services. A former special services and intelligence officer notes that he now works much as he did before – merely on the other side of the public-private fence. A private company's intelligence can be a valuable supplement to official sources.

But such companies, especially at the extreme military end of the spectrum, do not necessarily need a government's approval to carry out their activities. This absence of accountability has created disquiet. There are few checks on their adherence to human rights conventions, for instance. Although they claim only to work for legitimate governments, deciding which is the "legitimate" side in many civil conflicts is not always straightforward.

Engagement with these companies is therefore vital. Military companies see their future growth and prosperity depending in part on their perceived legitimacy. Some are willing to be regulated.

From their point of view, transparency of their operations and business relationships is a crucial first step. But that involves meeting with government officials and discussing the issues. Given the circumstances, the apparent decision by the Foreign Office to enter into discussions with Sandline was the most intelligent option. The only pity is that it does not publicly acknowledge this.

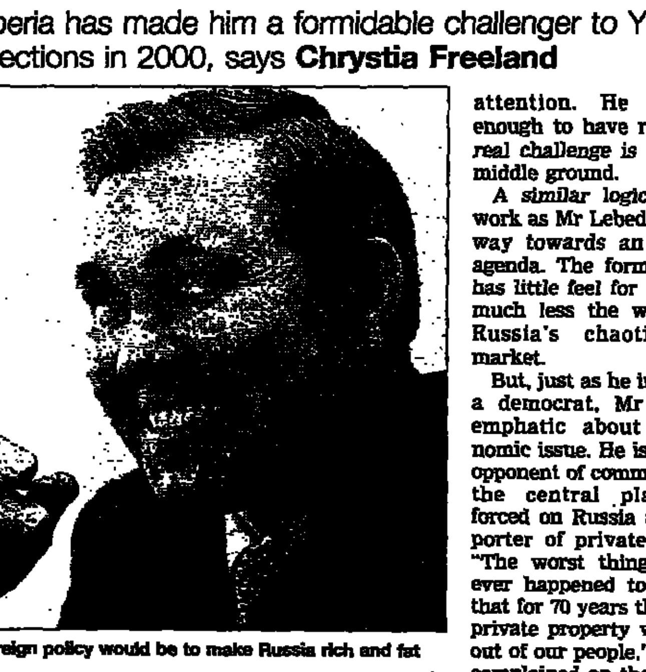
The author is a research associate at the International Institute for Strategic Studies and author of Private Armies and Military Intervention

Boris the Younger

Alexander Lebed's victory in Siberia has made him a formidable challenger to Yeltsin in the presidential elections in 2000, says **Chrystia Freeland**

"God bless you Alexander Ivanovich. God has given you to Russia to save us sinners." Nowadays, it is almost unheard of for a politician in Russia to inspire the sort of sentiment contained in this outburst from Ekaterina, a 45-year-old welder, in Krasnoyarsk.

Alexander Lebed is an exception. Last weekend he won the governorship of Krasnoyarsk territory, a mineral-rich Siberian region more than four times the size of France, and Russians are now wondering whether his populist magic will be strong enough to propel him to the presidency in 2000.



Lebed: main foreign policy would be to make Russia rich and fat

His new job will not necessarily do it. Another former general who went into politics, Alexander Rutskoi (Boris Yeltsin's vice-president who took up arms against him in 1993), has also been a governor, of Kursk in southern Russia, for two years. His career has gone nowhere.

Mr Lebed's chances look much, much better. In a country still polarised by the traumatic shift from communism to capitalism, he is almost the only politician to do what Boris Yeltsin managed in two presidential elections: appeal across the political spectrum to nationalists at one extreme and liberal free marketeers at the other.

His image as an outsider, untainted by corrupt Kremlin politics, is a powerful draw for the millions dispossessed by the shift to a market system; but his aggressive anti-communism means his constituency is not limited to the pensioners who still cling to their party cards. Mr Lebed won some liberal fans for his role in ending the war in Chechnya in 1996; yet his military background makes him the pin-up boy of the far right.

Mr Lebed's protean persona was an asset in the Siberian campaign, helping him to pick up nearly 60 per cent of the vote, almost 20 per cent more than his Kremlin-backed rival, the sitting governor. But as he takes to the national – and international – scene, the question is: what does the former paratrooper stand for? His indeterminate ideology has been fertile ground for the nightmares Russia so easily breeds.

The darkest of all is that a general's uniform and a dictator's iron fist lurk beneath the civilian suits and craggy smile.

Since he first captured the nation's attention in 1992 as commander of Russian troops in Moldova (where he stopped a civil war in days) Mr Lebed has hinted at authoritarian sympathies.

He famously praised Augusto Pinochet, the Chilean dictator, and at a nationalist conference once berated a delegate for "sounding more like a Jew than a Cossack".

But in the campaign for Krasnoyarsk, Mr Lebed has portrayed himself differently. "Of course I consider myself a democrat," Mr Lebed rasped. "Only I think that democracy must be built, not just declared. Already, I've helped to build it – I've stopped two wars, one of which Yeltsin, that great father of Russian democracy, started."

The reference to the war in Chechnya is worth dwelling on. Appointed national security chief by President Boris Yeltsin in 1996, Mr Lebed was handed the poisoned chalice of the war in Chechnya. Mr Lebed took a deep drink and came up with a solution more radical than Russia's most ardent liberals had dreamed: a Russian military pull-out, de facto sovereignty for Chechnya and an end to a conflict that had claimed more than 50,000 lives. Mr Lebed is certainly concerned about the state of the Russian armed forces. But this does not make him a militarist. On most military issues, he is a reformer.

Of late, Mr Lebed has taken equal pains to counter his racist reputation. Asked at a Siberian campaign rally how he planned to "cleanse" Krasnoyarsk of people from the Caucasus, Mr Lebed was outraged. "That is not the sort of question to ask me," he thundered. "We are all equal Russian citizens, including people from the Caucasus."

In a similar vein, Mr Lebed assured the electors of Krasnoyarsk that he would advocate a moderate foreign policy. "The world is afraid of us because we are thin and hungry and in the history of the world it is the thin and hungry who make war on the rich and fat," Mr Lebed told a gathering of business leaders. "My main foreign policy would be to make Russia rich and fat."

By the same rule that allowed Charles De Gaulle to give up Algeria and US President Richard Nixon make a historic overture to China, a battle-scarred general like Mr Lebed is one of the only Russian politicians who can afford to preach pluralism and tolerance. Mr Lebed owns the nationalist vote – just looking at him is enough to make every great Russian chauvinist snap to attention. He is smart enough to have realised his real challenge is to win the middle ground.

A similar logic seems at work as Mr Lebed gropes his way towards an economic agenda. The former general has little feel for economics, much less the workings of Russia's chaotic young market.

But, just as he insists he is a democrat, Mr Lebed is emphatic about one economic issue. He is a virulent opponent of communism and the central planning it forced on Russia and a supporter of private property. "The worst thing that has ever happened to Russia is that for 70 years the sense of private property was beaten out of our people," Mr Lebed complained on the bustings.

Not that he is a fan of Russia's new economic order. Much of his campaign focused on the economic failures of the Yeltsin years which, he says, has reduced people in Krasnoyarsk to eating cattle feed and their own dogs.

The only solution Mr Lebed has is simplistic, but not stupid. Like the dismal scientists of the International Monetary Fund, Mr Lebed thinks the Russian economy needs liberalisation, particularly from bureaucracy: "The Russian economy is squeezed between two rocks – the lawless mafia and the greedy bureaucrats. In Moscow, it's a funny thing, the mafia turns out to be gentler than the state. The mafia takes just 10 per cent, the state takes everything."

Snappy slogans are not enough to run Russia. And apart from a messianic faith in his own destiny to rule Russia, the former paratrooper is short of long-held political views.

But that is hardly a decisive drawback. As he revs up for an attack on the Kremlin establishment from his Siberian fastness, Mr Lebed is coming to resemble another power-hungry, politically inchoate, charismatic outsider who overthrew the Russia elite nearly a decade ago. In some ways, Alexander Lebed looks like the young Boris Yeltsin – and that is why the old tsar's retinue is very, very afraid.

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Tuesday May 19 1998

Microsoft besieged

Could the antitrust suit against Microsoft, launched yesterday by the US Justice Department, be the start of a long and inconclusive war, such as that against International Business Machines through the 1970s?

Possibly. But although the department and 20 US states framed their charges against the software giant very broadly, they have wisely made their demand for remedies quite specific, at least for the time being. There was no suggestion (yet) that the authorities would press for anything as drastic as the break-up of AT&T, the telecommunications monopoly, 16 years ago.

But Bill Gates, Microsoft's abrasive chairman, should beware. Having rejected the remedies sought by the department over the weekend, he could yet find the nightmare of computer operating systems being designed by teams of lawyers coming true.

At one level, the charges levelled against the company appear extremely serious. Microsoft, it is said, has used its position as the supplier of operating systems for 90 per cent of personal computers to stifle competition, to harm consumers and to undercut innovation. It is charged, in particular, with using its dominance to gain acceptance for its internet browser and overwhelm competition from its main rival in the field, Netscape Communications.

Moreover, although opinion polls do not by any means cast Microsoft as a bogey man, the fact that so many states are joining in the action indicates that its political position is at the least uncomfortable.

Web browser

The main thrust of yesterday's suit reflects recent arguments about the company's decision to integrate its web browser with its latest operating system, Windows 98. It wants the company to unbundle the two or offer the Netscape browser with its own products – and to enable computer manufacturers to redesign the appearance of the opening screen of Windows 95. The department also objects to the way Microsoft has structured its contracts with equipment manufacturers and internet content providers to favour its own browser.

No doubt there are some fair points in these accusations. Microsoft is well known as a very tough commercial operator, and it understandably wanted to defeat Netscape when it thought "browser wars" were threatening its dominance over operating systems. Whether it used illegal means to further this aim remains to be determined.

No obvious harm

However, it is worth bearing in mind that Microsoft's actions in the browser field do not appear to have done obvious harm to consumers. Microsoft's browser is free. So is Netscape's. PC users can have whichever they want. The argument then turns on whether Microsoft has designed Windows 95 in such a way as to make it excessively inconvenient for users to switch.

So long as consumers are satisfied, this need not matter very much. Since Microsoft has caught up in this field, it has been able to reduce Netscape's share of the browser market from about 90 per cent to 55 per cent. If Microsoft fell behind, it would be possible for a competitor with an obviously superior product once again to win market share. In any case software and the power of personal computers are developing so rapidly that few people can foresee what will provide a decisive competitive edge in five to 10 years' time.

The Justice Department seems wisely to to have recognised this and to have stepped back from intrusive prescriptions about software. Instead it is emphasising the possibility of abuse in the structure of Microsoft's contracts, a much more fruitful field for antitrust investigation.

Yet the authorities need to careful that they do not become drawn into a long campaign against Microsoft merely because it is big, successful and has outsmarted competitors. This is a danger both for Mr Gates and the authorities. If they could both give a little, they would achieve what remains the best outcome: a compromise.

Transatlantic relations

Yesterday's announcement that US extraterritorial sanctions may be on their way out is not just good news for oil and gas companies eager to do deals with Iran. It could also mark a productive new era in relations between the US and the EU. But there are serious obstacles to overcome before the rewards of the deal can be reaped.

US extraterritorial legislation had become a serious irritant in the transatlantic relationship.

The deal announced yesterday lays out the principles for the end of extraterritoriality. But crucially, the deal has to survive domestic US reaction, which could be very hostile. Bill Clinton, the US president, has the authority to grant waivers under the Iran-Libya Sanctions Act, but needs Congressional approval to amend the Helms-Burton Act, which could be very difficult to get. Still, Mr Clinton, who is increasingly recognising the importance of the relationship between the US and the EU, especially with Emu on the way, has a big incentive to push the deal through.

An improved US-EU relationship could achieve a great deal. It could help to guard against any protectionist instincts arising from the Asian crisis. The EU and US could also usefully prepare the ground for a new round of trade talks: no WTO deals are possible without the support of both the US and EU, and co-ordination beforehand could speed negotiations considerably. The Transatlantic Economic Partnership initiative, also announced yesterday, could be a useful forum for this. Co-operation should stop short, though, of agreeing significant bilateral trade measures, as this could undermine the legitimacy of the WTO processes in the eyes of the rest of the world.

International crises

And in foreign policy terms, the value of a common US-EU position cannot be underestimated. There have been too many occasions on which the lack of an agreed position has weakened the west's response to international crises.

But the promise of an end to extraterritorial action does not guarantee that transatlantic relations will be untroubled from now on. Significant difficulties in the relationship remain.

The key problem is Congress. It was Congressional pressure that pushed through the extraterritorial sanctions acts in the first place, and there remains a lot of support for the sanctions principle. Even if yesterday's deal goes through, Congress could cause problems in the future. Though the agreement with the EU commits the administration to opposing new laws requiring extraterritorial sanctions, Congress is likely to have a different view.

'Rogue' countries

The problem stems from a marked difference on the issue of how to deal with so-called "rogue" countries. Whilst the instinctive US reaction (particularly on Capitol Hill) is for assertive action, including sanctions, the Europeans have often preferred a strategy of "constructive engagement". This difference will continue to cause frictions. To minimise these in future, the EU will have to show that its rejection of sanctions is based on principle, rather than on commercial considerations – something that so far it has failed to do.

A further irritant in the transatlantic relationship arises from the lack of a co-ordinated EU foreign policy. Foreign policy issues tend to be thrashed out at the UN or Nato rather than at EU level. Such issues as Libyan terrorism or Iranian nuclear weaponry are never properly discussed between the EU as a whole and the US – leaving that relationship focused too narrowly on trade rather than on strategic questions. This is not the only reason why the EU needs better foreign policy co-ordination, but it is a far from negligible one.

Extraterritorial sanctions have soured the US-EU relationship for too long, and must be removed as soon as possible. To achieve this, Mr Clinton will have to be as adept in dealing with Congress as he has been in negotiating with the EU. This deal is too important to be allowed to fail.

Government vs Big Business

In the wake of the Microsoft suit, Richard Wolffe studies the reasons for the wider upsurge in US antitrust activity.

It should have all the makings of an epic controversy. In election year, with the Dow at record levels, a Democratic administration is declaring war on the second most valuable company in the US. You might have expected thunderous opposition to this vigorous intervention in the operation of the fast-growing market – especially from Republicans, traditionally friends of Big Business.

Yet there was barely a murmur of dissent yesterday against the justice department when it and 20 state regulators launched a block-busting antitrust suit against Microsoft, charging the company "anti-competitive and exclusionary practices". In place of wider political strife over the role of government regulation, the only partisan issue is whether you are pro-Microsoft or anti-Microsoft.

This is the more surprising because of the immediate background. In the past few weeks the trustbusters, led by Joel Klein at the justice department, appear to have been launching a broadly-based attack on the consolidation that has swept through many of America's largest industries of late, arguing that such deals will benefit only the monopolistic interests of big business.

In March, the justice department stopped the merger of two defence companies, Lockheed Martin and Northrop Grumman. It has filed suit against Rupert Murdoch to stop him selling his satellite television business to a consortium of rivals, condemning the cable industry as "one of the most powerful and enduring monopolies in this country". Since September, the Federal Trade Commission has been investigating Intel, the world's largest chipmaker and the other half of the "Wintel" duopoly. Last month the justice department's commodities division won its biggest ever fine ($110m) against UCAR International, the largest US producer of graphite electrodes. Further trustbusting action is likely on several fronts – airline alliances, credit card companies, bank mergers and telephone takeovers.

It is true there are examples that point the other way. Last week the House of Representatives voted to repeal the Glass-Steagal and later laws that separate banking, broking and insurance. But overall, it seems as if the bureaucrats of the country of unfettered capitalism are turning against Big Business, or at least moving to limit its behaviour – and the politicians are doing nothing to stop them.

What lies behind this? It can hardly be popular opinion. Consumer surveys give mixed evidence on such complex lawsuits. The compny has released an opinion poll showing the majority supports the company against the government. There is certainly no public outcry against big companies.

But if popular demand is not the answer, then what is? There are four possible explanations. The first is that antitrust activism appeals to what President Bill Clinton last month called an innate "suspicion of bigness". Commenting on the wave of alliances among large US airlines, he said: "Americans often feel that ordinary people do not have enough control over their lives anyway, so I think there is going to be this questioning atmosphere." In other words, after the reaction against Big Government comes the reaction against Big Business.

Last week, Mike DeWine, chairman of the senate antitrust subcommittee, took the unusual step of urging the Federal Communications Commission to take a tough stance on the proposed $66bn merger between SBC Communications and Ameritech. The merger of the two Baby Bells, he said, was part of a trend toward "something approaching the old Bell system". That was broken up by antitrust officials in their last landmark action in 1984.

The message represents a sharp warning to the authorities to think twice before repeating the controversial decision to let through a telecoms merger. Last year, Mr Klein approved the $23bn merger of Bell Atlantic and Nynex, in spite of concerns that the deal would reduce telephone competition in the New York area. One senate aide made his concerns clear: "They [the politicians] do not see antitrust measures from a partisan view at all. At this very partisan time on Capitol Hill, this is almost unique. There is an agreement that the laws are there to protect not only businesses but also the consumers.

The second possible explanation for the upsurge of antitrust activism is that politicians of every stripe are suddenly beginning to understand the power of the internet to transform commmerce – and they are afraid of one company's dominance of it. At yesterday's launch of the lawsuit against Microsoft, Dennis Vacco, attorney-general of New York, likened the legal action to Teddy Roosevelt's epic battle against Standard Oil.

"Antitrust laws came in the midst of the industrial revolution. Today's action comes in the midst of a technological revolution," he said. "Roosevelt said at the time that both the biggest company and the richest man, like the humblest private citizen, must be held to obey the law in order to ensure the protection of the law for all."

It is this that seems to lie behind the remarkable reversal of some leading free marketeers to the anti-Microsoft cause. The most influential of the recent conversions is Robert Bork, the former federal judge. As a antitrust thinker of the Chicago school in the 1970s, he advocated minimalist government action for two decades before urging a lawsuit against Microsoft last month.

"There seems to be a widespread impression that the Microsoft controversy should be resolved by an ideological litmus test" he wrote in the New York Times. "Liberals are bent on punishing success, and conservatives must defend Bill Gates's company from any application of the antitrust laws. But the question is not one of politics or ideology; it is one of law and economics."

He was joined by Bob Dole, the former presidential candidate, whose U-turn in policy was even more stark. In a 1995 speech to the senate, Mr Dole even castigated the justice department for pursuing Microsoft. Now he says Microsoft's alleged attempts to dominate the internet are "unfair to consumers". Both Mr Bork and Mr Dole are paid consultants to Microsoft's rival, Netscape Communications.

The third explanation is that the antitrust authorities have simply become far more activist because they sense that trustbusting is palatable to politicians and the public in a prevailing atmosphere that supports free-markets and is suspicious of both Big Government and Big Business. Hence, while the justice department always stresses that detailed analysis of individual markets and companies underpin its actions, officials also see a wider policy role.

For Mr Klein, antitrust policy is not merely a means of prosecuting illegal monopoly behaviour, such as predatory pricing or exclusionary contracts. It represents one of the US government's most important tools for managing the economy.

"I think there is a general consensus on Capitol Hill that supports recent antitrust enforcement," said Mr Klein. "Antitrust is the preferred form of government intervention in markets, precisely because it aims to be – and should be – non-regulatory. We should stop companies using their market power to basically tip the playing field in their direction."

In terms of antitrust history, today's justice department is hardly as politically motivated as the golden trustbusting era of Teddy Roosevelt. At the same time, legal experts acknowledge it is more interventionist than the Reagan administration, in the last comparable period of merger mania. Although AT&T was broken up (by a New York court) during the Reagan administration, the case had been launched years before. In general, the Reaganite principle was to keep government off the backs of business, and the relatively low number of cases brought in the late 1980s reflects that policy.

In spite of his high profile attack on Microsoft, Joel Klein argues his policies are not extreme. "I do not see myself as an aggressive antitrust enforcer," he said. "In the politics of antitrust enforcement I am in the middle of the spectrum." Instead of regulating industries, Mr Klein says he prefers "surgical intervention" in the marketplace.

The fourth explanation for the revival of antitrust action is that it comes from new ways of looking at markets. Karen Grimm, antitrust partner at Sutherland, Asbill and Brennan in Washington, says that trustbusters have more sophisticated computer modelling to assess the impact of mergers. This is especially important as the current wave of mergers presents new problems as companies seek to concentrate their share of specific markets.

"There is a resurgence of antitrust as well as a lot of big mergers," she says "But today's very large mergers of companies with very large market shares and oligopolies are very different from the mergers of the 1970s and 1980s, when they involved big conglomerates. If the agencies do not challenge some of these mergers they do not have a lot of credibility."

At least part of the new confidence among US trustbusters is drawn from an economic theory of "network effects". The gist of this is the claim that, in high technology sectors and communications in particular, a single monopoly can extend its dominance into new sectors.

This theory is controversial. Robert Levy, senior fellow of the free-market Cato Institute and a former chief executive of a small software company, says: "These theories do not hold water in the software industry. The whole Microsoft case should be scrapped lock, stock and barrel. This is not a capital intensive industry, it is ideas and the human intellect. Nobody has a monopoly on that, least of all Microsoft."

Meanwhile, the trustbusters have already moved further afield. The justice department is concerned that its national jurisdiction cannot cope with cross-border monopolies and cartels. It already works closely with the European Union's competition authorities.

Janet Reno, the US attorney-general, has set up an international antitrust committee of business people and academics to square the circle. Within the next 18 months, the independent advisers are expected to draw up a blueprint for how US domestic antitrust action can fit into an international framework. If the trust-busters have their way, it seems, the antitrust policies of the US. might soon be influential abroad.

Landmark antitrust cases

Standard Oil

Standard Oil, the creation of John D Rockefeller, is the textbook example of antitrust action. The company began life in Ohio in 1870 and was ruthlessly built into an oil-refining giant with a market share of more than 80 per cent by the turn of the century.

But it swiftly ran into trouble, being charged with using predatory pricing to crush its rivals, controlling pipeline distribution, and forcing rebates out of the railroads. In 1892 the Supreme Court ordered Rockefeller's empire, the Standard Oil trust, to dissolve. But that did not prevent Standard Oil from prospering as a holding company until 1911, when the court ordered its final break-up into 34 companies, and the directors to relinquish their control. Its successors - including Mobil, Exxon and Chevron - are still powerful in the petroleum industry.

IBM

International Business Machines' antitrust problems date back to 1932 when it was accused of forcing users of punch card machines to buy its punch cards. Again, in 1952, IBM was charged with restraint of competition. A 1956 settlement forced the company to restrict its operations to ensure competition. But the trustbusters were back on the case in 1969 when IBM was charged with predatory pricing of computer peripherals.

After 13 years of legal wrangling, the Justice Department declared that case "without merit" in 1982. The effect of these actions, in particular the 1956 consent decree, was to create within IBM a culture of wariness toward antitrust violations. Lawyers became involved in business decisions, creating bureaucracy and slowing the company's responses to changing market conditions.
It is this effect that Microsoft fears most.

AT&T

After 107 years at the centre of US telecommunications, American Telephone and Telegraph was the world's biggest business with 84m customers and almost 1m employees. In 1983 it agreed with the Justice Department to break itself up to form seven so-called Baby Bells. The Reagan administration argued that the break-up would enhance competition in long-distance services, and end the cross-subsidies of local services.

Since then, AT&T has built itself into a strong long-distance carrier and has suffered intense competition. The Baby Bells, which have maintained their local monopolies, are in the process of re-grouping into four companies through mergers. Three of the original seven Bells may soon be under one roof: the Texas-based SBC Communications has bought Pacific Telesis (in California) and has bid $66bn for Ohio-based Ameritech.

OBSERVER

Helmut at home in Bremen

No flashing lights, no specially composed anthem: Helmut Kohl was determined that yesterday's congress of his Christian Democratic Union should eschew the gimmicks used by Gerhard Schröder when he was enthroned in Leipzig last month as the opposition Social Democratic Party's challenger for the chancellorship.

But even Kohl's desire to emphasise conservatism and continuity could not stop some razzmatazz creeping in. The 10-minute standing ovation was almost certainly a record, and there was more than a whiff of stage management about the chants of "Helmut, Helmut" and the giant banner saying "Do it again Helmut".

Kohl probably deserved the accolades. His two-hour speech was well-constructed and well-delivered. At 68, he looked fit and tanned and showed none of the signs of age and fatigue that marred his address to last autumn's CDU conference.

Perhaps it helped to be in Bremen, which has become a symbol of his ability to come off the ropes fighting. At the 1989 CDU congress there, he saw off the only significant internal party revolt of his 16 years of power and went on to unify Germany the following year.

Kohl needs all the good fortune he can get. He enthused the faithful yesterday, but his poor opinion poll ratings suggest that he has yet to convince the German people that he is the man to lead them into the 21st century.

Call me modem

It was good to see US attorney-general Janet Reno in command of her troops yesterday lining up for the battle with Microsoft. If only she was also in command of the technology on her own desk – apparently her office computer has got her beat.

In Miami, where she was state attorney-general in the early 1990s, she wasn't exactly queen of the keyboard, but was "fairly fluent" with her computer. But things got complicated when she arrived in Washington.

"It got so confusing as to what was on the computer or what wasn't, what was on the hard drive and what was on the soft drive, that it made it easier for me just to work with paper and pencil so I could figure out what I had and didn't have," says the woman who is gunning for Bill Gates.

So forget that computer desktop – it seems that a simple wooden one will do.

Webbed feat

.....Reno may not be a PC's best friend, but her justice department's website looks like it has had a makeover, maybe preparing for all the hits it's going to be taking from Microsoft's allies and enemies over the next few days.

The site (www.usdoj.gov) used to be just as tedious as all the other US government sites: they tend to look as if bureaucrats and technofreaks are bringing out the worst in each other.

Now there's a welcoming homepage with links to places like "fugitives and missing persons", which includes pictures and gory stories about the 10 most wanted criminals and the rewards for shopping them. There's a "what's new and hot" section (yesterday the "hot topics" page was a trifle tepid, as it hadn't been updated for 10 days) and a "justice for kids and youth" area with lots of cartoons and badges.

Internet surfers will appreciate the absence of those annoying buttons saying things like: "Best viewed with MS Internet Explorer." In the circumstances, that isn't really a surprise.

Virtual reality

Urbane, patrician Maurice Lippens, co-chairman of Belgo-Dutch financial services group Fortis, is trying to smooth the feathers left ruffled by the less-than-amicable merger talks with its new partner, Générale de Banque.

He has suggested the negotiations were "like playing rugby. You get socked in the eye during the game, then you all go out and have a drink afterwards." The directors of Générale, who have been dragged kicking and screaming into the deal, probably don't feel much like sipping a *bière blanche* with anyone.

Yesterday Lippens was seeking inspiration in Magritte, the surrealist whose centenary falls this year. In an attempt to discourage suggestions that Générale was actually being taken over by Fortis, he likened the deal to the famous Magritte paintings of a pipe, which bear the words: *"Ceçi n'est pas une pipe."*

"This is not a takeover," he insisted. "It is a merger." Like those pouring into the big Magritte exhibition in Brussels, students of the Fortis-Générale deal will be looking for the meaning behind the picture.

High note

Fancy penning a ditty? Mozambique has decided that it needs a national anthem that can be sung without imperilling economic development.

The current number has a decent tune, but the words are all about burying capitalism and exploitation. It's not easy for ministers to sing along in front of the multinational executives they keep wheeling in to discuss a spot of inward investment.

A competition has got under way to find a national anthem that gives a general blessing to virtues like national unity, independence, the heroism of the Mozambican people, work, equality and peace. Something, in short, to strike a chord with everyone.

The Financial Times

100 years ago

Selling Socks To China

A careful eye should be kept by British manufacturers on the opening up of the upper waters of the Yang-tze River, as American and European trade will doubtless play an important part in the developments there. Reference is made in a report on the trade between the United States and China by Her Majesty's representative at Washington to the development of the hosiery trade in this connection. Amongst the Chinamen who have had any intercourse with Europeans there has been of recent years a rapidly increasing tendency to adopt the woven sock of foreign make.

50 years ago

Losses By French Industry

Paris, May 18. In reply to a written Parliamentary question, the Finance Minister, M. René Mayer, revealed how the principal nationalised industries have fared since they have been under State ownership. With the exception of the four nationalised deposit banks, losses have occurred in all cases, and, in some instances, even in spite of huge Government subsidies. In the coal mines the position is particularly unfavourable.

FINANCIAL TIMES

TUESDAY MAY 19 1998

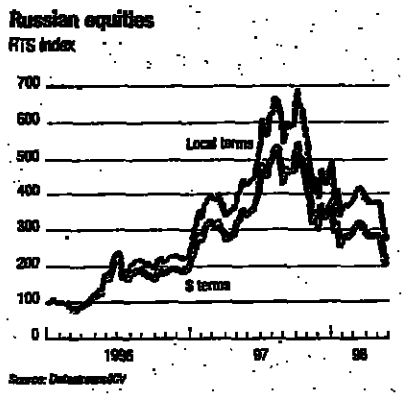
THE LEX COLUMN

Rouble roulette

Russia has ridden out bouts of market jitters in the past and will probably do so again. But there are still ways in which the current mini-crisis could descend into a full-blown one. Indonesia's agony is an uncomfortable backdrop; with investors fleeing to quality, the spotlight has again been shone on Russia's own debt problems. The government is finding it hard to collect taxes from its people, as yesterday's figures rammed home.

The signs of distress are less in the plummeting stock market than in the fact that yields on short-term government debt are now above 45 per cent. With inflation below 10 per cent, real interest rates are punishingly high. This could potentially lead to a vicious cycle in which debt-servicing costs rise so high that the new government's apparently sincere efforts to rein in its budget deficit are defeated. Eventually, investors could refuse to buy government paper, leaving the authorities no choice other than to allow the money supply to rip.

Before that occurred, pain would be felt in the foreign exchange market. Unlike Asia's tigers, Russia does not have a foreign currency debt problem, but it has a foreign debt one. If outside investors decided to liquidate their large holding of government bonds, the government's foreign exchange reserves would be quickly exhausted. That would force a devaluation of the rouble, undermining the government's entire stabilisation policy.



Suez Lyonnaise des Eaux

The fall in Suez Lyonnaise des Eaux's share price yesterday is a useful reminder that, no matter how fine the strategy sounds, the price needs to be right too. No one is going to argue with Suez Lyonnaise's mission to refocus on utilities. The urgency with which the management is reshaping the portfolio had definitely earned the stock its 20 per cent-plus outperformance of the French market since October. But only the most stubbornly nationalistic Belgian shareholder is likely to shun the 21 per cent premium – to Friday's expectant close – that Suez Lyonnaise is offering for the minority of Société Générale de Belgique.

The immediate quibble is that Suez Lyonnaise's earnings will not go up as much as was hoped from the simple act of consolidating more profits from its main prize, the energy group Tractebel. But it would be churlish to grumble too much about this. Tractebel is crucial to Suez Lyonnaise's international expansion plans. More important is how wisely it invests in this core activity from here on, and likewise in the water business.

These ambitions help explain why the SGB offer is all in shares; some powder is being kept dry. But as Suez Lyonnaise can also fund expansion by disposals, scope remains to tighten up the balance sheet once French rules on buybacks are liberalised. It should be bold and scoop back in the bulk of the shares it is issuing.

Citigroup

It has not taken long for the rapture to fade. When Travelers and Citicorp announced a merger, enthusiastic investors marked up their combined market value by $30bn to $166bn. Six weeks later, barely $7bn of that increase is left – almost all of it in the share price of Citicorp, which produced some good quarterly figures in the intervening period. Yet the stock market has been flat and the deal has faced no unexpected regulatory or other upsets.

Clearly the market whipped itself into a frenzy on the first day, mesmerised by the boldness and sheer size of the new Citigroup. That excitement has rightly given way to worries about how to merge and manage such a complicated financial supermarket.

Is the market now getting it right? The management has promised a $1bn boost to earnings by the end of 1999. Admittedly, most of that will come from cross-selling benefits, which are less certain than cost savings. Even so, putting the $1bn on a multiple of only seven looks harsh. While knitting the two together on the consumer side will take time and patience, gains from handing Citicorp's corporate client list to Salomon Smith Barney's investment bankers should come quite quickly. And so far, the senior management appointments have gone smoothly, with no loss of talent from either side. Having been over-enthusiastic initially, it now looks as if investors are being too gloomy.

Withholding tax

Some European Union governments are good at frightening their citizens into declaring and paying tax on European-held savings. Some are not so good, and want to crack down on the tax-dodgers once and for all. The big idea is contained in a European Commission draft directive. The snappy document suggests that EU countries do one of two things: they either impose a withholding tax at source, or they pass on the relevant information to other member states.

Not only is this an inefficient way of dealing with the problem but it could also hit the issuance of European bonds, damaging the European capital markets' competitiveness.

First, the proposals do not fully tackle the problem. Banking secrecy laws mean a number of EU countries would not be able to swap information on bank accounts and interest payments. And a withholding tax would simply push investors to keep their savings in non-EU countries, such as Switzerland.

But it is the damage this move could have on the eurobond market in the EU that should send the drafters of this directive back to the drawing-board. Under the proposal, issuers of European bonds will surely end up bearing some of the administrative cost of implementing the withholding tax. In an international market, such as that for eurobonds, issuers and investors will simply move to more efficient markets, such as the US. The EU tampers with the free flow of capital at its peril.

Indonesian parliament's speaker tells Suharto to go

By John Ridding and Sander Thoenes in Jakarta

President Suharto's 32-year grip on power in Indonesia suffered a severe blow yesterday when a parliamentary leader demanded he resign.

The surprise call by Harmoko, the speaker of parliament and an ally of Mr Suharto, prompted expectations of an imminent departure by the Indonesian leader after weeks of protests.

However, General Wiranto, Indonesia's top military officer, dismissed the parliamentary demand, raising the threat of confrontation between the armed forces and civilians. "Based on the country's constitution, the statement has no legal basis," the general said.

He said the demand represented only the views of individuals.

In spite of his comments, there is a growing belief that Mr Suharto will soon be forced from power in the wake of riots which left more than 500 dead in Jakarta last week.

The unrest has been fuelled by demands for political reforms and anger over a deepening economic crisis. Students resumed protests yesterday as several thousand demonstrated at the parliament and delivered a petition urging Mr Suharto's departure.

Amien Rais, a Moslem leader, said millions would protest tomorrow, the anniversary of the nationalist movement. "Suharto must go: the sooner the better," he said.

The impression of a leader under siege was underlined last night when tanks and armoured personnel carriers arrived outside Mr Suharto's house to reinforce the presidential guards. However, Moetojib, Indonesia's intelligence chief, said Mr Suharto remained "calm" and would explain political developments today. This would break a public silence maintained since he returned early from an official trip last week.

While some viewed Mr Harmoko's statement as a sign the succession process was under way, diplomats and bankers were cautious.

"Even if this really is the start of the succession, it might take time, and Suharto may impose conditions," said one diplomat. "He has never looked like going easily."

Bankers and diplomats said they believed Mr Suharto's departure was necessary for recovery, but they had concerns about transition. "There is no clear successor, and a real danger of a power vacuum," a diplomat said. "It is far from clear that the procedures and personalities of succession would be acceptable to students and political opponents."

General Wiranto's statement tightened the focus on the military as the most important power broker in Indonesia. The general, viewed as a possible successor to Suharto, is believed to face a challenge from Mr Suharto's son-in-law, General Prabowo Subianto, who met the president until late last night.

"Factionalism among the military is now my biggest fear," said an investment banker. "That would lead to a shooting match."

Fears of more unrest prompted a sharp fall in Jakarta's markets yesterday. The rupiah fell more than 10 per cent to below 12,000 to the US dollar, while the stock market lost almost 3 per cent before rebounding after Mr Harmoko's statement. Companies linked to the Suharto family were hardest hit.

Call to delay debt talks, Page 8

G8 leaders' silence helps send yen to lowest level since 1991

By Gillian Tett in Tokyo and Richard Adams in London

The Japanese yen yesterday fell to its lowest level against the US dollar since 1991, weighed down by upheavals in Indonesia and lack of support from the Group of Eight summit.

When markets opened, traders jostled to sell the currency – spurred by the absence of references to the yen in the G8 communiqué and confirmation by US officials that US and Japanese leaders did not mention the exchange rate at the meeting.

Further bad news about the credit crunch, caused by the banks' efforts to improve their balance sheets, intensified the pressure on the yen, which fell by more than 1 per cent.

During Tokyo trading hours, the yen fell from Y133.95 to Y135.4 against the dollar, and continued falling when the London and New York markets opened. By the end of trading hours in London, the yen was worth Y136.11, its weakest rate against the dollar since September 2, 1991. Paul Chertkow, chief currency strategist at the Bank of Tokyo-Mitsubishi in London, said the yen's weakness was "a consequence of a policy mix that does not appear to be working".

Ryutaro Hashimoto, prime minister, said Japan was not slipping into a deflationary spiral, but admitted the economy was deteriorating. His management of the economy prompted three leading opposition parties to agree to submit a motion of no confidence in parliament. If the motion were to be passed, Mr Hashimoto would be forced to step down or call a snap election.

Haruhiko Kuroda, a senior finance ministry official, warned Japan "was prepared to take appropriate measures" to defend the yen. But traders reported that the Bank did not intervene in the market, and London analysts dismissed the statement as "jawboning".

The currency has also been weakened by speculation the Bank of Japan might cut interest rates at its meeting today. But several members fear a cut would further weaken the yen. Rates have been at 0.5 per cent since the end of 1995. And the yield on the 10-year benchmark government bond yesterday fell to a record low of 1.265 per cent.

Osamu Watanabe, a trade minister, blamed the yen's weakness on Indonesia's economic crisis. The Indonesian currency has become untradable, according to emerging markets brokers in London. With no reliable offers, market traders talked of the rupiah being priced at about Rp12,500 to the dollar.

The impact of the crisis fell most heavily on Russia. The country's central bank was forced to put out a statement affirming its support for the Russian banking system.

The rouble came under speculative attack, but Oleg Vyugin, Russia's deputy finance minister, ruled out devaluation. "We are going to prevent attacks against exchange rate and this is why we have 50 per cent yields today on the domestic market," he said.

Moscow plunge, Page 21

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The estate of Colombia's now dead drug lord Pablo Escobar, boasting follies such as this dinosaur, has been given to poor families. Page 7 AP

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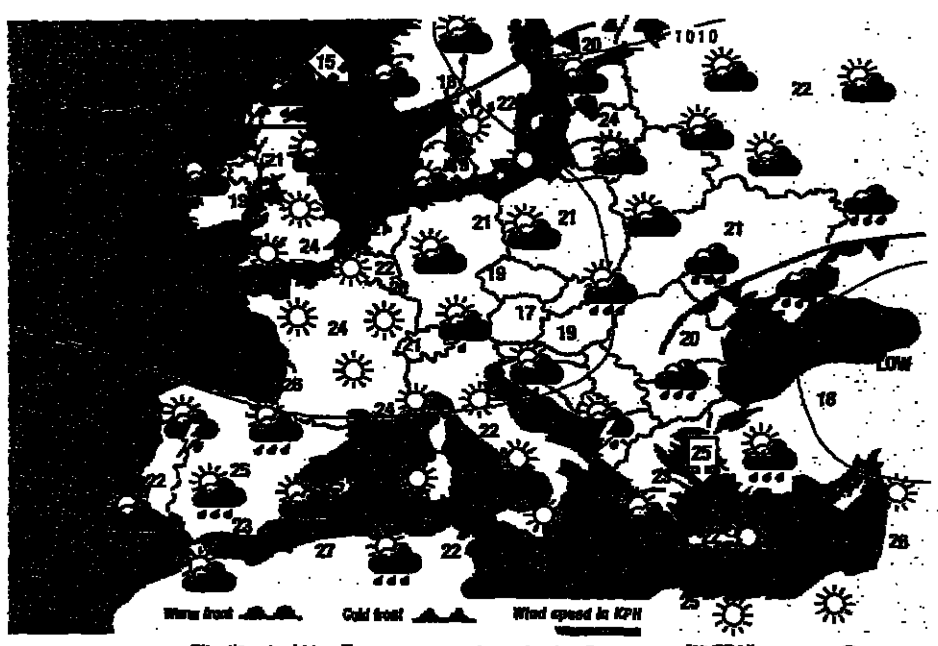
FT WEATHER GUIDE

Europe today

Northern Scandanavia will be cold with showers and mountain snow. More southern parts will be mostly fine. The eastern Alps and eastern Austria will have showers but the Balkans and south-east Europe will have thundery downpours. The Iberian Peninsula will have spells of hot sun but scattered thunder-storms will develop inland. The central Mediterranean, France, the Low Countries, Germany and the western Alps will be fine with lots of strong sunshine.

Five-day forecast

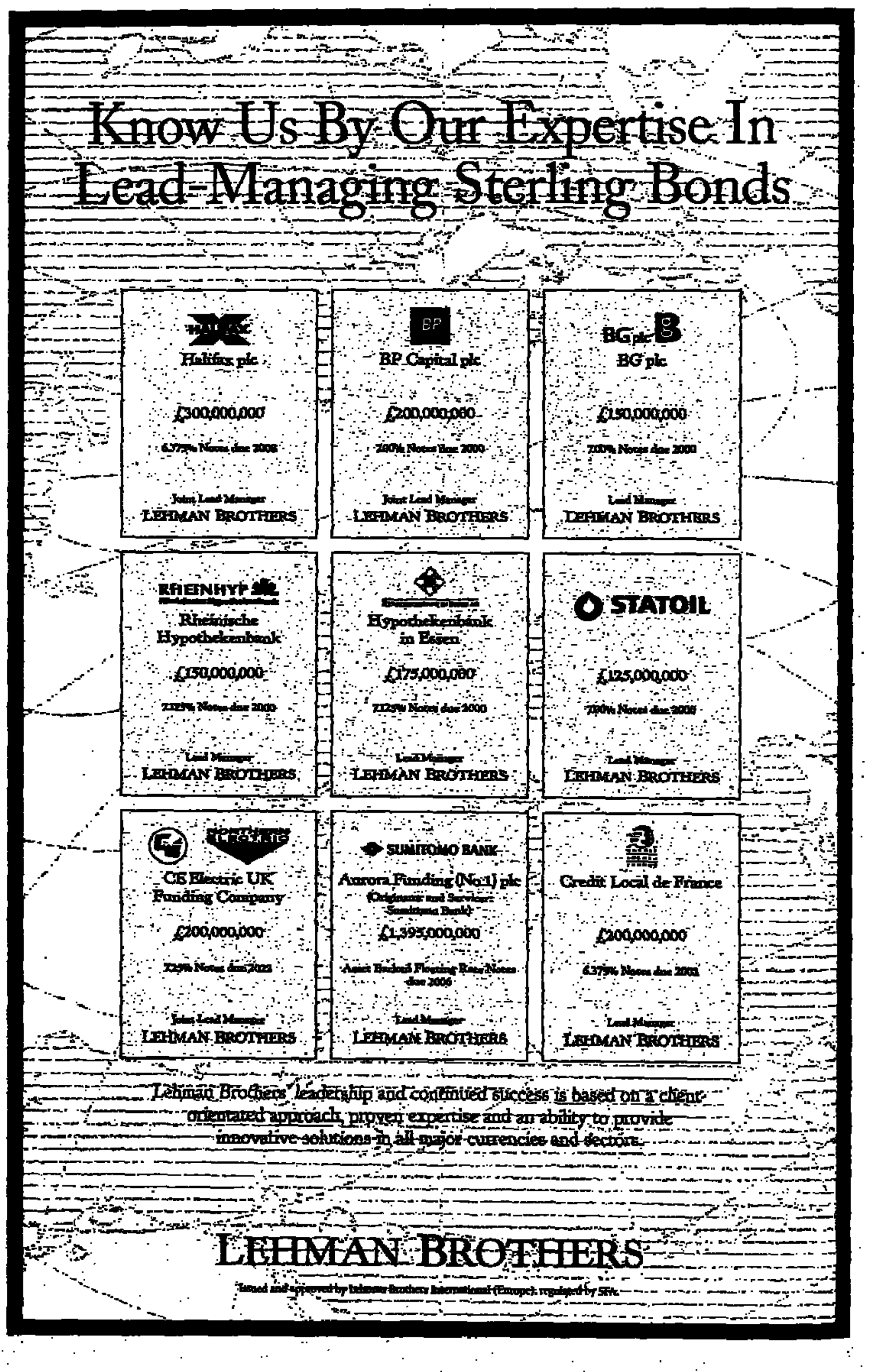
Cold air over northern Scandinavia will push southwards, reaching the Low Countries and northern Germany by Friday, bringing a few showers. North-west Europe will stay fine but temperatures will drop later. Spain and Portugal will remain hot but thundery. The Alps will become wet by Friday.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	36
Accra	Fair	32
Algiers	Shower	27
Amsterdam	Sun	21
Athens	Fair	23
Atlanta	Sun	32
B. Aires	Sun	18
B.ham	Sun	22
Bangkok	Thunder	35
Barcelona	Shower	22
Beijing	Shower	30
Belfast	Fair	19
Belgrade	Thunder	17
Berlin	Fair	21
Bermuda	Shower	26
Bogota	Cloudy	20
Bombay	Sun	35
Brussels	Fair	22
Budapest	Shower	19
C.hagen	Fair	18
Cairo	Sun	29
Caracas	Thunder	31
Cardiff	Sun	21
Casablanca	Fair	22
Chicago	Thunder	30
Cologne	Fair	23
Dakar	Sun	27
Dallas	Sun	35
Delhi	Sun	32
Dubai	Sun	37
Dublin	Fair	19
Dubrovnik	Fair	20
Edinburgh	Fair	19
Faro	Fair	23
Frankfurt	Fair	23
Geneva	Sun	21
Gibraltar	Sun	24
Glasgow	Fair	21
Hamburg	Fair	20
Helsinki	Shower	20
Hong Kong	Shower	30
Honolulu	Fair	29
Istanbul	Shower	19
Jakarta	Cloudy	33
Jersey	Fair	20
Johannesburg	Sun	18
Karachi	Sun	37
Kuwait	Sun	41
L. Angeles	Fair	20
Las Palmas	Fair	24
Lima	Cloudy	23
Lisbon	Fair	22
London	Sun	24
Lux.bourg	Fair	20
Lyon	Sun	23
Madeira	Sun	23
Madrid	Shower	25
Majorca	Fair	25
Malta	Fair	24
Manchester	Sun	22
Manila	Fair	31
Melbourne	Shower	18
Mexico City	Sun	31
Miami	Fair	31
Milan	Sun	26
Montreal	Shower	23
Moscow	Fair	22
Munich	Fair	19
Nairobi	Cloudy	25
Naples	Fair	23
Nassau	Fair	30
New York	Thunder	29
Nice	Fair	21
Nicosia	Sun	27
Oslo	Fair	18
Paris	Sun	24
Perth	Fair	21
Prague	Fair	19
Rangoon	Fair	34
Reykjavik	Fair	10
Rio	Fair	22
Rome	Sun	22
S. Frsco	Fair	16
Seoul	Fair	25
Singapore	Shower	33
Stockholm	Fair	22
Strasbourg	Fair	21
Sydney	Shower	20
Tangier	Fair	25
Tel Aviv	Sun	26
Tokyo	Fair	24
Toronto	Shower	25
Vancouver	Fair	17
Venice	Sun	22
Vienna	Shower	17
Warsaw	Fair	21
Washington	Sun	31
Wellington	Sun	15
Winnipeg	Fair	20
Zurich	Fair	20



FINANCIAL TIMES
COMPANIES & MARKETS
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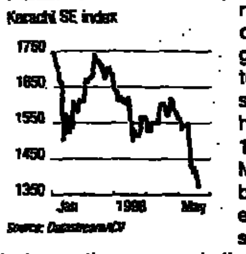
INSIDE

GEC-Alsthom puts hopes in Eurotrain
GEC-Alsthom, the Anglo-French transport and engineering company that is due to be floated, is facing a shortage of orders for the TGV, its high-speed train. That partly explains the importance attached to this month's successful demonstration in Germany of the so-called Eurotrain system, which may be bought by Taiwan. Page 22

Proton faces test on tariff removal
The Asian economic crisis has dented demand for Malaysia's national Proton car, despite recent sales promotions. But analysts say Proton must undertake extensive restructuring to prepare for 2003, when it faces a stiffer challenge – the removal of tariffs on foreign cars. Page 26

Karachi awaits bomb decision


Pakistan's stock market continued to fall on worries over the economic outlook if a decision to go ahead with a nuclear test brought US-backed sanctions. Share prices have fallen more than 11 per cent since last Monday's nuclear tests by India brought heightened tension across south Asia. Many analysts say the concern is that foreign investors will pull out at the first sign of US sanctions. Page 44

Argentina mining prospects blighted
With big projects scheduled and a strong exploration effort, mining in Argentina seemed set for rapid development this year. But lower metal prices, rows over royalties and the after-effects of the Bre-X scandal have slowed exploration and raised questions over some projects. Page 34

Endesa launches public offer
Endesa, the Spanish power group, has launched the registration period for its record-breaking Pta1,164bn ($7.7bn) privatisation. The sale, at current market prices, is double the size of an offering of Endesa shares last October, which set a benchmark for Spain's capital markets. Page 32

Milan falls as stocks go ex-dividend
Early weakness on Wall Street and continuing tensions in Asia contributed to a weak stock market performance in Milan. The index was also affected after 80 stocks went ex-dividend. Page 44

Pressure mounts for Opec cuts
Pressure is growing on the Organisation of Petroleum Exporting Countries to make fresh crude oil production cuts when oil ministers meet in Vienna on June 24. But some analysts argue that such a move may be unnecessary. Page 38

World index expands
From today our table on the FT/S&P World Index, an important benchmark for international investors, has been expanded to include European regional indices covering the new Euro monetary bloc. Page 41

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MARKET STATISTICS

Moscow stock market falls by 11.8%

Trading suspended as fears of rouble devaluation prompt heavy selling

By Carlotta Gall in Moscow

Worries about Russia's financial position and fears of a rouble devaluation forced a fourth day of heavy selling on the Moscow stock market yesterday. The benchmark RTS share index closed at 227.61, down 11.8 per cent and trading was suspended for 20 minutes in the middle of the day during a sharp plunge.

Russia's stock market fell by almost 15 per cent last week, with investors appearing to abandon the high-risk market for safer havens after the recent problems of other emerging markets such as Indonesia, Mexico and Hong Kong. Russian stocks have fallen by more than 50 per cent since October.

Brokers say lack of investor confidence also stems from the poor state of Russia's public finances. Tax collection is not improving and low world oil prices mean government revenues have taken an additional hit.

Meanwhile Russian miners have blocked trains on the Trans-Siberian railway for several days to press demands for payment of $800m in wage arrears.

The central bank, which raised its Lombard rate – the rate at which it lends to commercial banks – from 30 per cent to 40 per cent for 15-day to 30-day money on Friday, said it was confident it had done enough. It was also calm about fears of a rouble devaluation.

But brokers said the last few days have increased the risk of devaluation. Nervous investors drove yields on state treasury bonds up above 45 per cent yesterday. There are fears that high interest rates will drain investment from the economy and the stock market and that the central bank will not have enough reserves to back the rouble.

"Investors were waiting for some signal from the central bank that it recognises what is happening," said Par Mellstrom, the head of research at Brunswick Warburg, a Moscow brokerage firm. "But [the statement] was not enough to calm the markets."

Mr Mellstrom said that yesterday's sharp fall in share prices may have been due to local factors. "It was a bit of over-panic," he said. "It was mostly Russian investors selling small orders but it is symptomatic of the lack of confidence generally."

Stocks in leading oil company Lukoil fell to $12.45 from $13.95 on Friday, while the electricity utility company Unified Energy Systems dropped to 21.90 cents from 25.11 on Friday. "Russia has clearly suffered more than other emerging markets," said Stephen Sullivan, the joint head of research at United Financial Group, a Moscow-based investment bank, last week.

"In addition to general emerging market worries, Russia is hurt by domestic concerns such as rising interest rates and the cap on foreign share ownership in Unified Energy Systems, one of Russia's leading companies."

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World Stocks, Page 44

Pinault in $1.2bn deal to take over Christie's

By David Blackwell in London and Andrew Jack in Paris

François Pinault, one of France's most charismatic businessmen, yesterday launched a full takeover bid for Christie's International less than a fortnight after buying a 29 per cent stake.

His bid, through his holding company Artemis, values Christie's at £721m ($1.2bn), and was backed by the board of the famous auctioneer, which was founded in 1766.

Mr Pinault, the son of a Breton forester, aims to add Christie's to a list of trophy assets that includes Chateau-Latour, the celebrated Bordeaux wine label, and Vail, the exclusive Colorado ski resort.

In private, he is a prodigious collector of contemporary American art and a man who rarely gives interviews or explains his business decisions. His involvement in Christie's raises questions as to how he will be able to keep his head down in such a high-profile business.

However, he is seen as a long-term investor, with a hands-off management style. Artemis went out of its way to stress its "long-term commitment and support for the management in implementing the long-term strategic development of the business".

Christie's shareholders have been offered 396p a share, and will be entitled to the 4p final dividend. The offer price confirms speculation that Mr Pinault paid 400p a share for his initial stake, bought for an undisclosed price from Joseph Lewis, the Bahamas-based billionaire. The company has been listed on the London Stock Exchange since 1973.

"It is a pretty full price, and I would not expect any great opposition to it," said Guy Bell, analyst with brokers Beeson Gregory, adding that he would be surprised if any other bidder were to emerge.

The French group, which owns property and financial service businesses, has made its move just as the closed world of the French auction business is poised to be opened up to the big international houses in compliance with EU competition law.

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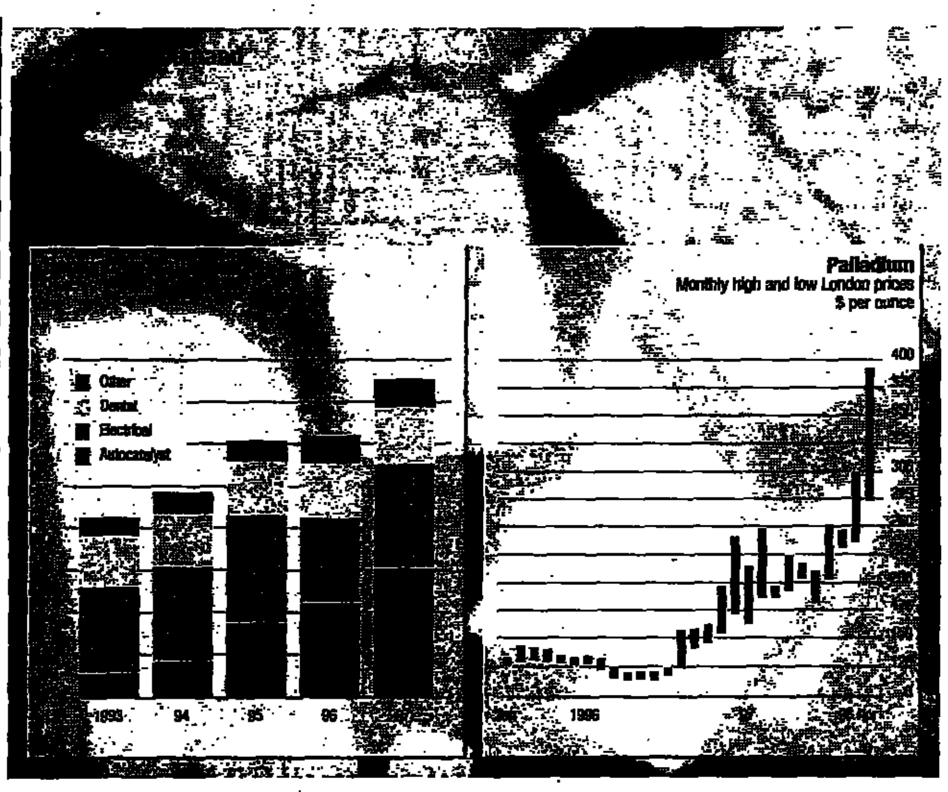

Palladium hits record high as industry warns of shortage

By Kenneth Gooding, Mining Correspondent

The price of palladium, a metal vital in making mobile phones, laptop computers and anti-pollution vehicle catalysts, jumped to record levels yesterday, overtaking the price of platinum for the first time.

Short-term worries about supplies from Russia, the biggest producer, pushed palladium up to $417 a troy ounce at its London afternoon "fixing", up nearly 7 per cent from Friday's $392. Platinum was "fixed" at $405 an ounce, up $2.

At the beginning of 1997 palladium was $120.

Palladium is used in capacitors which control power supply in many electronic products and is also used as a catalyst to help reduce pollutant emissions in cars. It is closely related to platinum, but palladium has applications in electronics which platinum cannot fulfill.

Fast-growing demand for products which rely heavily on palladium will leave the world severely short of the metal early next century, Johnson Matthey, the world's biggest platinum and palladium marketing organisation, warned yesterday.

The supply "crisis" could arrive in relatively few years, said Graham Titcombe, managing director of JM's precious metals division.

The current price surge has been triggered by the failure of Russia, which accounted for two-thirds of global palladium supply in 1997, to export any of the metal this year because of bureaucratic delays in the issue of export licences. Analysts expect a re-run of last year when Russia did not export any palladium or platinum in the first six months.

However, Mr Titcombe was warning about medium-term difficulties which "will make the events of the last 18 months look relatively serene". He referred to a big gap between palladium supply and demand that has built up in the past five years and been filled only because Russia was able to sell from its stocks.

JM, in its latest market survey yesterday, said demand for palladium soared by 21 per cent last year to an unprecedented 7.46m ounces. Supply was only 7.25m ounces.

Russia contributed 4.5m ounces to palladium supplies in 1997 compared with its estimated production of 2m ounces. Since 1994, Russia has taken about 10m ounces from its palladium stocks, according to JM's estimates. These stocks are likely to run out by 2002 while Russia is unable to increase output.

Jeremy Coombes, JM's general manager, marketing, said: "Russia should tell the world what stocks it has, so consumers know how much time they have left."

The automotive industry could substitute platinum for palladium in some catalysts, while the electronics industry could use nickel as an alternative, he said.

Mr Titcombe implored vehicle makers to increase efforts to switch to platinum.

South Africa has vast reserves which could be brought into production.

Commodities, Page 34

Seagram outlines funding plans for PolyGram offer

By Alice Rawsthorn in London and William Lewis in New York

Seagram is considering proposals to float its Tropicana fruit juice business and to sell its 11m shares in Time Warner, the US media group, to finance its planned $10bn-plus acquisition of PolyGram, the Dutch music and film company.

Edgar Bronfman Jr, chief executive, yesterday won board approval to submit an outline cash and shares offer for the 75 per cent of PolyGram owned by Philips, the Dutch electronics concern.

Philips' supervisory board will consider the offer at a meeting in Amsterdam today. Seagram, advised by Morgan Stanley, also hopes to acquire the 25 per cent of PolyGram's shares in public issue, but has not yet decided how to structure that transaction.

The Canadian drinks and entertainment group hopes to acquire PolyGram for $10bn, but Mr Bronfman is believed to be willing to raise the total value of his bid to $10.5bn if necessary.

Mr Bronfman is understood to be confident of financing a $10.5bn deal without making disposals.

However, Seagram is seriously considering staging an initial public offering for Tropicana, which mustered a 14 per cent increase in profits before tax and interest to $235m in 1997 on sales up 4 per cent to $2.1bn.

Seagram is also considering the sale of its 11m Time Warner shares, valued at roughly $900m on the New York stock market yesterday. The Canadian group bought 57m Time Warner shares in a series of transactions during the mid-1990s, but has sold them at intervals since acquiring MCA, the entertainment group, in 1995.

Last week, two US investment consortia threatened to mount counter-bids for PolyGram. One consortium, composed of Forstmann Little and Thomas H. Lee, the leveraged buy-out funds, and advised by Michael Ovitz, the former Hollywood talent agent, was last night trying to decide whether to bid. The second, led by Donaldson Lufkin & Jenrette, the banking group, has withdrawn.

Seagram hopes to stave off the threat of other counter-bids by submitting its outline offer to Philips today.

Mr Bronfman has not yet decided how to restructure its entertainment interests if the PolyGram bid comes off. He held several meetings in New York last week with Alain Lévy, PolyGram's French-born president, thereby fuelling internal speculation that the latter may be offered a senior position at Seagram.

Mr Bronfman hopes to add PolyGram's record labels – which include U2, Bob Marley, Sheryl Crow, Pulp and Hanson among their acts – to Universal Music, one of the old MCA businesses. PolyGram's film company, the largest in Europe, would be folded into Universal Studios.

For the love of music, Page 24

Fortis and Suez Lyonnaise launch Belgian takeover bids

By Neil Buckley in Brussels

Two takeover bids totalling almost $16bn were launched in Belgium yesterday, presaging both a big new European financial services group and one of the biggest corporate upheavals in the country's 168-year history.

Fortis, the Belgo-Dutch insurance and banking group, made a BFr409bn ($10.8bn), seven-for-three share offer for Générale de Banque, Belgium's biggest bank.

Simultaneously, France's Suez Lyonnaise des Eaux unveiled a one-for-one share offer worth BFr178bn for the 36.5 per cent it does not already own of Société Générale de Belgique, Belgium's biggest holding company. SGB has stakes in both Fortis and Générale de Banque.

The bids, both agreed with their targets, are the two biggest in Belgian corporate history in value terms. They are examples of the restructuring of Europe's financial sector before the arrival of the single currency and of the gradual erosion of national boundaries in corporate Europe.

Belgium will see SGB, its oldest and most prestigious company whose interests once accounted for almost a third of gross domestic product, fall entirely into French hands. Générale de Banque, which SGB spun off in the 1930s, will be absorbed into a larger, binational group.

The probable disappearance of both companies from the Brussels bourse, combined with other corporate restructuring, will rewrite the Bel-20 index of leading shares.

For France's Suez-Lyonnaise, the deals mark the biggest simplification of its Belgian interests since it stepped in as "white knight" to defeat a takeover bid by Italy's Carlo De Benedetti in 1988, and ended up with two-thirds of SGB.

They are another step in its strategy of focusing on utility businesses, and will strengthen its role as a self-professed Franco-Belgian group, increasing the proportion of total group assets located in Belgium from 34 to 47 per cent.

In return for seeing two well-known names absorbed into other groups, Belgium will get the Grande Banque Belge it has coveted.

The enlarged Fortis will have assets of almost Ecu300bn and be one of Europe's top 15 financial services groups – including banks and insurance businesses – by market capitalisation. It will rank just behind Germany's Munich Re, Aegon of the Netherlands, France's Axa-UAP and Italy's Generali, and ahead of NatWest of the UK, Swiss Re, and ABN Amro of the Netherlands.

Fortis will restructure itself, bringing its own banking assets under the umbrella of Générale de Banque. The banking business, accounting for two-thirds of profits and 80 per cent of assets, will be based in Belgium, with the insurance businesses run from the Netherlands.

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Historic deals, Page 22

UTILITIES RATIONALISATION OF ASSETS SHARPENS FRENCH GROUP'S FOCUS

Suez Lyonnaise in Belgian shake-up

By Neil Buckley in Brussels and Andrew Jack in Paris

With two historic deals yesterday, France's Suez Lyonnaise des Eaux undertook the biggest rationalisation of its Belgian assets in 10 years, left itself more firmly focused on utilities and turned itself into more of a "Franco-Belgian" group than ever before.

Its bid for full control of Société Générale de Belgique, and the merger of two of SGB's main assets, Générale de Banque and Fortis, will leave it with two principal direct stakes in Belgium.

One is a 24.5 per cent stake, soon to be reduced to 20 per cent, in an enlarged Fortis – one of Europe's 15 biggest financial services groups.

The other is a 50.3 per cent stake in Tractebel, the fast-growing energy utility set to become one of Suez's core activities.

The moves are the latest steps in the rapid restructuring undertaken by Gérard Mestrallet since he became chairman in 1995.

In two years, he has purged Suez of loss-making assets, and transformed it from diversified holding company into a utilities business based around energy, water, waste management and communications.

Taking full control of SGB – of which Suez has had 63.5 per cent since it defeated a rival bid by Carlo De Benedetti, the Italian businessman, in 1988 – seemed the logical next step. Given political sensitivities in Belgium, it is also the most delicate.

The loss of any remaining Belgian control of a 175-year-old company whose foundation precedes that of the state itself is a blow to national pride.

More worrying for the government is the possible impact on Tractebel, one of the country's most important industrial assets.

Suez-Lyonnaise may be content simply to be able to consolidate 50.3 per cent of Tractebel's profits, instead of 32 per cent now – an important step towards fulfilling its pledge to double earnings per share by 2002.

But analysts predict clashes over the desire of Tractebel to be master of its own fate, and particularly to merge with Electrabel, the electricity monopoly in which Tractebel already owns 39 per cent.

A merger would create a super-utility well-placed to take advantage of liberalisation of the European Union's electricity and gas markets. It would also, barring other changes, dilute Suez Lyonnaise's stake in Tractebel to about 30 per cent – which the French parent has made clear it will not accept.

Another question is whether both Fortis and Suez Lyonnaise des Eaux are paying too much.

Fortis' seven-for-three share offer for Générale values the bank's shares, ex-dividend, at BFr24,726 – a 15 per cent premium to the average market price over the past 10 working days – and the bank itself at BFr409bn ($11.12bn). The market response was sharp falls in Fortis' shares in Brussels and Amsterdam.

Suez Lyonnaise is offering one of its shares for every SGB share – valuing the latter at a 21 per cent premium to Friday's closing price – plus a possible additional payment linked to Suez's share price in the first quarter of 2001.

One Paris analyst called the price "generous". Reactions to any future moves regarding Tractebel may prove whether the offer has bought the French group political capital in Belgium, as well as assets.

Fortis to restructure after Générale merger

By Gordon Cramb in Amsterdam

Fortis is to reshape its elaborate organisational structure as a result of the Générale deal.

The Belgian and Dutch Fortis units are to put their separately held assets and liabilities into the group, with each becoming only a holding vehicle.

The changes will also increase the influence of shareholders at Fortis' Dutch arm, in line with a government push towards better corporate governance in the Netherlands.

Fortis plans to use Générale as the foundation for all its banking and investment operations. "All insurance activities worldwide will be aggregated to form the building blocks of a single Fortis insurance group," the company added. That side would be run mainly from Utrecht.

However, indicating the limits to the process, the group said: "Fortis' principal banking entities have established ... insurance subsidiaries ... [which] will continue to be part of the bank through which they distribute their services."

Fortis added that for both sides of the business, values of strong existing brands would be preserved. These include ASLK-CGER in Belgium and VSB Bank north of the border.

Operational integration, due to start next January, will involve no compulsory redundancies, and savings on outlays are not promised in the first three years. However, by 2002 these should lift pre-tax profits by Ecu300m ($331m) a year, mostly from efficiency gains.

"It is not earnings-enhancing straight away," said Hans Pluijgers, of Kempen & Co in Amsterdam. But he added: "In the long run it could work quite well – it is an acquisition they really needed for market power."

A single-tier board will run the group, as well as Fortis AG and Fortis Amev, respectively its Belgian and Dutch holding companies. "Effectively it is one board with three different hats," said Mr Phillips.

Fortis Amev is opting out of a regime requiring a separate supervisory board and is conferring full voting rights on its shares, which until now investors could hold only as depository receipts.

The economic rights of an AG share have been set at 4.5 times those of one in Amev to create an equalisation ratio allowing for current differences in price and net asset value. Each will be entitled only to an annual dividend, subsuming the interim payment at Amev.

Zurich-BAT merger faces $1.4bn costs

By William Hall in Zurich and Christopher Adams in London

The Anglo-Swiss financial services giant created by the planned merger of Zurich Group, Switzerland's biggest insurer, with the insurance and asset management arm of BAT Industries, will incur exceptional charges of up to $1.4bn from integrating the companies.

The costs of the $52bn merger, announced last October, were disclosed in listing particulars published yesterday. They were accompanied by an increase in projected savings from $250m to $400m, to be realised over 3 years.

Integration in the UK is likely to result in 1,600 job losses, most of which will fall in the general insurance operations of Eagle Star.

The new group, to be called Zurich Financial Services, will have $34bn in gross annual premiums and assets under management of $375bn.

Rolf Hüppi, chief executive designate, said it would be a "global powerhouse" combining Zurich's focus on providing global solutions with the "tremendous distribution and production capacity" in BAT's financial services arm.

ZFS will also include some of the best known retail finance brands in the US: Chicago-based Kemper Group and the New York fund manager Scudder, Stevens & Clark, both owned by Zurich.

They will join Farmers Insurance, the third largest personal lines general insurer in the US, and Allied Dunbar, Eagle Star and Threadneedle Asset Management, all based in the UK.

Some $700m-$800m of the exceptional charge will be used to raise non-life insurance reserves of the new group. British American Tobacco, which will continue as a cigarette manufacturer, will receive a cash payment of £700m ($1.14bn).

BAT also revealed it would take a charge of $200m to pay for its share in the tobacco industry's settlement with the US state of Minnesota.

Staff reductions at Eagle Star, regarded by analysts as one of the worst performers among the UK composite insurers, would provide most of the projected savings.

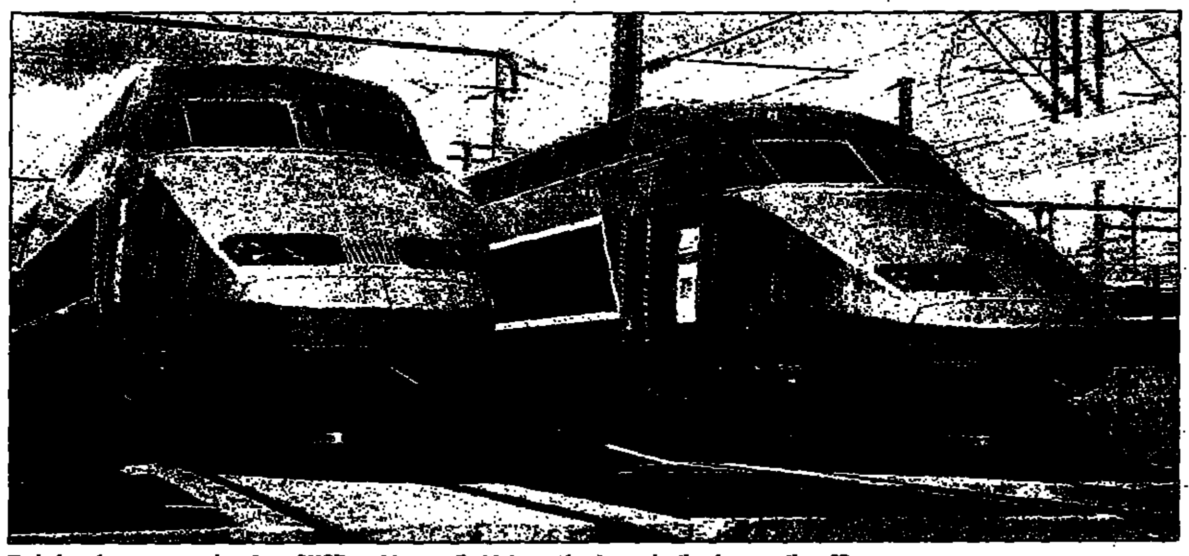
Zurich may seek an acquisition in continental Europe to bolster distribution of retail investment products. It could also buy to expand its share of the UK life assurance market from 2 per cent to 10 per cent.

ZFS, with headquarters in Zurich, will be 57 per cent controlled by Zurich's current shareholders who will receive shares in Zurich Allied and 43 per cent controlled by BAT Industries' shareholders who will receive shares in Allied Zurich.

Zurich's investors will vote on the merger on June 11 and BAT shareholders on June 12.

GEC Alsthom puts its hopes aboard the Eurotrain

Shortage of TGV orders is forcing group to look at new markets, writes **David Owen**



Train in vain: no new orders from SNCF could mean first interruption in production in more than 20 years

Inside a hangar-like assembly hall in the trendy seaside resort of La Rochelle in western France, men in blue overalls are at work on metallic grey *train à grande vitesse* coach bodyshells.

The finished coaches should soon be plying the route from Seoul to Pusan in South Korea as part of one of the biggest export orders for the celebrated French high-speed train. The contract involves 46 so-called TGV trainsets, some of which will be built in Korea. The first trainset, shipped from La Rochelle, arrived at its Asian destination in April.

The TGV is probably the best-known product of GEC Alsthom – soon to be known as Alstom – the Anglo-French transport and engineering company which is expected to be floated next month.

The group is likely to be valued at about £4bn ($6.5bn) in one of Europe's largest public share offers this year. It is currently a joint venture between Alcatel Alsthom of France and the UK's General Electric Company. The flotation will involve up to 58 per cent of its capital.

The 1 km-long Aytré plant where the men are working has produced a high proportion of all the TGV coaches built. With 1,200 employees, it is one of the GEC Alsthom transport unit's main European manufacturing facilities. Others include Barcelona in Spain, Valenciennes in northern France, Salzgitter in Germany and Belfort in eastern France, which manufactures the TGV locomotives.

However, the TGV is now a dwindling part of the overall activity of the transport division, which accounted for more than one-quarter of the company's Ecu11.1bn ($12bn) sales in the year to end-March 1998 and a similar proportion of its Ecu599m operating income.

By the group's reckoning, this puts it second in the world rail transport league with 14 per cent of the market, just behind Adtranz with 15 per cent and ahead of Siemens, Bombardier and Ansaldo with 11 per cent, 5 per cent and 4 per cent respectively.

Thierry Smagghe, manager of the Aytré plant, says that in peak years "one TGV coach was being sent out of the plant every day". This year the factory will make at most 80 coaches.

Indeed, if new orders are not received from SNCF, the state-owned French rail operator, or abroad within 18 months, Mr Smagghe acknowledges that Aytré may face its first interruption in TGV coach production in more than 20 years. This could occur after the French part of the TGV Korea project is completed at the end of 1999.

The shortage of TGV orders in part explains the importance attached to this month's successful demonstration in Germany of the so-called Eurotrain high-speed train system, which may be bought by Taiwan.

The company, in partnership with Siemens of Germany, has been selected as "best applicant" for the proposed rail system linking Taipei with Kaoshuing, nearly 350km away.

The $20bn project has been described as the world's largest transport infrastructure project currently under development, and According to Mr Smagghe, rolling stock would account for just under 10 per cent of the overall price tag. Denis Godefroy, strategy and industrial resources manager at Aytré, says that if the company wins the contract, "it would be twice the capacity of this factory for two years".

While it waits for the green light from Taipei, the company has worked hard to secure orders for other products. This is reflected by other work at the Aytré factory, including trams for Saint-Etienne, diesel multiple units for the French regions and even subway cars for Athens.

Transport was one of the main contributors to a 41 per cent year-on-year increase in GEC Alsthom's orders to a record Ecu11.6bn, thanks in part to a strong performance from the US.

The company is trying to build on this success by customising its Xter regional express diesel multiple units for the North American market. Mr Smagghe says it is also looking at a cheaper version for Asia.

In keeping with chairman Pierre Bilger's desire to "develop further as a truly global company", the transport unit now has plants as far afield as Brazil, Poland and North America. According to Mr Smagghe, the company's west European plants are being used as "pilot sites" to enable some of these relatively far-flung plants to acquire the requisite technologies.

The relatively low volume of production for each distinct rolling stock model means it is necessarily what the French call an "artisanal" process, compared by Mr Godefroy to the manufacture of helicopters or buses. There are no robots or conveyor belts at Aytré.

The plant is making sizeable efficiency strides nevertheless. Today, workshop teams make complete subassemblies for carriages, rather than, as before, performing single tasks such as welding, painting and cabling. Batch sizes and stocks are much smaller and productivity has improved five-fold.

Lower Saxony to hold 25% of Salzgitter after sale

By Graham Bowley in Frankfurt

The German state of Lower Saxony will retain a stake of about 25 per cent in Salzgitter, Germany's second biggest steel producer, which it controversially bought earlier this year from Preussag, the industrial conglomerate.

Lower Saxony and Norddeutsche Landesbank, the public-sector bank, announced yesterday they would sell up to 60 per cent of Salzgitter in a share sale which would raise up to DM861m ($483m).

Gerhard Schröder, prime minister of Lower Saxony and Social Democrat contender for chancellor in national elections in September, provoked controversy in January when he moved to buy the Preussag steel division to stop it falling into foreign hands.

Mr Schröder bought the division, then called Preussag Stahl, to protect the region's economic interests. The move attracted criticism, particularly because it came ahead of regional elections which Mr Schröder eventually won.

Any sign that the share offering is less than a success could be damaging for Mr Schröder.

Lower Saxony and Norddeutsche Landesbank together paid DM1.06bn for the business. The new share offering values the company at between DM1.2bn and DM1.4bn.

Hans-Joachim Selenz, Salzgitter chief executive, insisted yesterday that Lower Saxony would distance itself from the day-to-day running of the company despite retaining a large stake. He said there would be "no political influence on the company".

About 34.3m shares are being offered for sale at a price between DM20 and DM23. A further 3.2m shares will be offered in a "greenshoe", or overallotment, option if demand is strong.

Nord LB and Morgan Stanley, which are arranging the sale, said the shares would be sold to give an even split between German investors and foreign institutional investors.

The new shares are to be listed on the Frankfurt and Hanover stock exchanges. Trading will begin on June 2.

Clariant seeks to build warchest

By William Hall in Zurich

Clariant, the fast-growing Swiss speciality chemicals company, is seeking shareholder permission to raise about SFr1.5bn ($675m) of additional equity to help it finance further strategic acquisitions, following last year's SFr4.6bn purchase of the specialty chemicals division of Germany's Hoechst.

Clariant, which issued 3.27m new shares partly to pay for the Hoechst acquisition, plans to create SFr40m of new authorised capital. It has no immediate plans to issue the shares, but says it wants to ensure that sufficient funds are available at short notice should it want to make other acquisitions.

Roland Lösser, chief financial officer, told Clariant's annual results press conference last Friday that the new shares would allow it to raise close to SFr1.5bn in new equity. It would also enable Clariant to raise extra debt so that it could finance an acquisition of between SFr3bn and SFr4bn.

The company said it had no intention of diversifying away from specialty chemicals. Rolf Schweizer, chairman, also indicated that Clariant's recent sale of its superabsorber business to Germany's BASF was the first of a series of divestments.

Clariant's pro-forma results show a 20 per cent rise in divisional sales to SFr9.9bn in 1997 and a jump in net income from SFr118m to SFr422m. Earnings per share rose 75 per cent to SFr58.05, and the group plans to raise its dividend by 40 per cent to SFr14.

Hoechst retains a 45 per cent stake in Clariant.

BCH sets up US broking operation

By Tom Burns in Madrid

Banco Central Hispano has stolen a march on the Latin American franchises of its larger Spanish rivals Banco Bilbao Vizcaya and Banco Santander, by developing a private banking strategy to service high net-worth clients out of New York.

BCH said yesterday it had set up a stockbroking unit, Central Hispano Securities, as the first firm of its kind by a Spanish bank to trade on Wall Street. It added that it had acquired for an undisclosed sum Westphere Capital Advisers, an asset management group that has funds of some $331m under management.

The investments will develop an agreement last year between BCH and the Rothschild Group, the banking and investment concern, to offer a broad range of offshore financial instruments and investment opportunities to clients in Latin America. The Spanish bank has an established a deposit gathering base through some 1,500 branches in the area operated by its local banking networks.

BCH said it aimed to be managing Latin American funds totalling Pta750bn ($5bn) by 2000, up from a present level of Pta150bn.

The bank is currently negotiating the purchase of a 67 per cent stake in Banco de Santa Cruz, the leading financial institution in Bolivia. Strongly positioned in Chile, where it controls the O'Higgins Central Hispano bank, BCH is also considering the purchase of a large stake in Banco de Galicia, an Argentine bank, through a joint venture with the Luksic group, its Chilean partner.

NEWS DIGEST

FRANCE

GE Capital ruled out of bid for GAN insurance

GE Capital of the US has failed to qualify in its bid to acquire GAN, the state-owned insurance group, the French government indicated yesterday. The decision means just four contenders remain in the competition for GAN: AIG, Eureko, Groupama and Swiss Life.

Individuals connected to the tender indicated GE Capital had failed to submit the full contents of its offer by the deadline at 6pm last Friday. However, the company said yesterday its offer had been made at the start of the evening and it was a "shame" it had not been accepted.

It is also in discussions about making a bid to take control of Crédit Foncier de France, the specialist property lender. **Andrew Jack, Paris**

EQUITIES

Metzler sets up Dutch team

B. Metzler, the privately owned German bank, has hired 20 equities specialists from BZW and Credit Suisse First Boston to set up an Amsterdam-based operation in Dutch equities.

It plans to set up similar "local broker" operations in other continental European markets such as France, Italy and Scandinavia, to fill the gap caused by the shift from national equities business to sector-based activities by big international banks.

Describing the formation of Metzler Netherlands BV as the first step in this strategy, the Frankfurt-based bank said the timing of the next moves would depend largely on the availability of other local equity specialists. Its aim is to serve international institutional investors. **Andrew Fisher, Frankfurt**

INDUSTRIALS

Barlow advances only 1%

Weak domestic demand caused Barlow, the South African industrial group, to report an increase in operating profit of only 1 per cent to R500.1m ($98.4m) for the half-year to March despite a good performance from its international subsidiaries.

Turnover from continuing operations rose 8 per cent to almost R10bn, dragged down by sluggish spending on fixed investment in South Africa. Analysts said the results were in line with expectations.

Earnings per share, excluding exceptional items and profit on the sale of shares, in Persetel Q Data, declined 7 per cent to 136.8 cents. Including these items, attributable profit rose 40 per cent to R461.2m.

Most of Barlow's international businesses did well and accounted for 53 per cent of operating profit compared with 42 per cent for the same period last year.

The capital equipment division, propelled by strong economic growth in Spain and Portugal, made the biggest contribution to earnings, notching up a rise of 23 per cent. Warren Clewlow, chairman, said: "We have ensured Barlow has the resources to move quickly, should international growth opportunities arise." **Greta Steyn, Johannesburg**

CEMENT

Cimpor sale raises Es131bn

Portugal raised Es131.4bn ($720m) yesterday from a global offering of 25 per cent of Cimpor, the country's biggest cement producer. The offering attracted huge demand from small savers.

More than 600,000 orders were placed by retail investors for almost 2bn shares. This was almost 150 times the number on offer, even after the institutional tranche was reduced from 7m to 5.7m shares to increase the retail offering from 12.1m to 13.4m shares.

The global co-ordinators, Banco Português de Investimento and Morgan Stanley, are almost certain to exercise an option to increase the institutional offering by a further 1.9m shares. The offering was priced at Es6,500 a share, a discount of 2 per cent on Friday's closing price. Most small investors also benefit from a discount on the offer price. **Peter Wise, Lisbon**

MEDIA MARKETING PROMISE HELPS REVERSE VIACOM UNIT'S FORTUNES

Blockbuster wins back customers

By Christopher Parkes in Los Angeles

Blockbuster Video is enjoying a reversal of fortunes in the US, thanks to a marketing strategy based on a promise.

By guaranteeing popular cassettes will be available – with a free rental if they are not – it is drawing the customers back. Fulfilled pledges have also worked the same restorative magic on Viacom, its parent.

Although down $½ on profit-taking yesterday morning, shares in Sumner Redstone's entertainment group lingered close to their 52-week peak at $57⅞ following Sunday's announcement of a $4.6bn cash deal to sell its non-consumer publishing interests to Pearson, publisher of the Financial Times.

As with Blockbuster, where new tactics came in response to pressure from consumers, the publishing auction followed pressure from investors frustrated at the unexploited values they saw locked up in Mr Redstone's company.

However profitable educational, professional and reference books might be, they argued, they had no role or synergies to offer an entertainment company best known for MTV, *Rugrats* and Paramount Studios.

Net proceeds of about $3.8bn will be deployed to pay down group debts, already reduced last year by 20 per cent to about $8bn.

With the sale of Blockbuster's ill-fitting music retailing arm in prospect, the group is adopting the form of the integrated companies that dominate entertainment media.

While its corporate strategy has soothed investors, consumers have also responded quickly to Viacom's new profile in the marketplace. The success of *Titanic*, produced in partnership with 20th Century Fox, gave 1997 a strong send-off.

With first-quarter losses down from 11 cents to 4 cents a share, Mr Redstone predicted an "outstanding" year for Viacom. Longer term, now that most of the misfits are being moved out, momentum will depend on the management of the remaining assets.

Losses cut: Sumner Redstone predicts an 'outstanding' year for Viacom AP

Ploys such as expanding the *Rugrats* franchise from a small-screen kids' cartoon into an animated feature film and a successful series of books show promise.

Blockbuster, too, appears to be on the mend. Under new management since last June, by the final quarter of last year it was able to report its first increase in rentals since mid-1996. Business improved 10 per cent in the first three months of the current year, and was climbing at a rate that suggested Mr Redstone might soon have another valuable asset to sell, should the need or the occasion arise.

SPC, Lucent in Mexican wireless deal

By Henry Tricks in Mexico City

SPC, the Mexican telecommunications company recently created by media and retailing magnate Ricardo Salinas Pliego, has signed a letter of intent with Lucent Technologies, of the US, to set up a national telephone wireless network.

The $700m agreement is part of SPC's strategy to provide wireless telephony to poor Mexican households that lack access to the fixed lines offered by Telmex, the local telephone monopoly.

TV Azteca, Mr Salinas Pliego's television company, said yesterday that under the agreement, Lucent would "plan, construct, implement and maintain" the nationwide wireless network.

It would also provide 100 per cent financing to SPC to buy the equipment and services.

SPC bid $908m in a public auction for part of the nationwide spectrum that uses PCS (personal communications services) technology allowing voice and data transmission over the airwaves.

Mexico's Federal Telecommunications Commission ended the wireless spectrum bidding process on May 8.

SPC plans a total investment of $1bn over the next five years, and is targeting 10m households without access to telephone services.

According to Javier Sarro Cortina, SPC chief executive, the aim of the wireless network is to provide a "plug and play" service to clients.

In a country where Mr Salinas Pliego says Telmex has installed lines for only about one-tenth of the 92m population, customers will be able to come into any store of his Elektra retailing chain, pay $50 for a telephone, plug it into a power outlet at home and immediately make or receive local or long-distance telephone calls.

The radio signal towers will be built on top of the Elektra stores and the retailer, which sells white goods on credit to low-income families, will also handle the billing.

SPC says it is financing the spectrum acquisition by raising $160m in equity capital from private investors in Mexico and the US.

It also plans to issue high-yield debt as a Rule 144A/Regulation S offering of Senior Notes, with net proceeds of between $225m and $275m.

AT&T, Yahoo! in marketing link-up

By John Labate in New York

AT&T announced yesterday a marketing pact with Yahoo!, the internet search engine, in the latest attempt by the US telecommunications company to expand its reach to online consumers.

In recent months AT&T has established similar links with other internet search engines, such as Excite and Lycos.

However, unlike those agreements, the deal with Yahoo! is more a pure "products and service" marketing plan, as it does not include any closer tie between AT&T's own internet service, WorldNet, and Yahoo!.

Terms were not disclosed, but AT&T is believed to be paying millions of dollars.

The new service will allow consumers reading one of several Yahoo! website pages to click an AT&T icon to purchase international and domestic long-distance calling services, phone cards, and wireless services.

AT&T will offer a long-distance service at 9 cents a minute to registered Yahoo! users.

The agreement also includes the use and marketing of AT&T voice-enabling technology by Yahoo!. This will expand the typed "chat room" meetings now widespread on the internet to include voice conversations. The new feature is expected later this year.

Internet search engines are considered vital "portals" to the internet. Most have added expanded services to attract more viewers for longer periods of time.

AT&T's recent agreements highlight the importance of search engines for companies in other industries looking to reach new audiences.

However, investors sent both companies' shares lower. By early afternoon, Yahoo! was down 2\frac{13}{16}$ to $115¼ and AT&T lost $$\frac{3}{16}$ to 56\frac{13}{16}$.

NEWS DIGEST

MANUFACTURING

Eaton moves European HQ to be closer to customers

Eaton, the US manufacturing group that supplies the automotive, construction, semiconductor and general industrial sectors, is to move its European headquarters from London to Amsterdam early next year. The company said the transfer would take it closer to the bulk of its customers and that "the availability of a diverse workforce with multilingual skills was another major factor in our decision".

Stephen Hardis, chairman, said: "The Netherlands is a strong and proactive supporter of the European Community."

Eaton said job losses would not be significant and that it did not expect the regional head office decision to affect its 11 other facilities in the UK. **Nikki Tait, Chicago**

SOUTH KOREA

Emergency loan for Dong-ah

Creditor banks yesterday agreed to extend a Won600bn ($422m) emergency syndicated loan to the Dong-ah construction group, South Korea's 10th largest industrial group, to save it from collapse. The deal followed the resignation of chairman Choi Won-suk, the group's main shareholder, and a promise by Dong-ah to restructure by selling subsidiaries and property.

Dong-ah received three emergency loans this year, but was threatened with bankruptcy after it failed to secure a $250m loan from CSFB at the weekend. Its engineering unit declared bankruptcy last week.

Dong-ah's four main creditor banks – Seoul, Korea Exchange, Shinhan, and Commercial Bank of Korea – also agreed to roll over Dong-ah's existing loans for another year and lower interest rates to the prime rate. Dong-ah's net debt to equity ratio amounted to 349 per cent at the end of 1997.

Shin Bok-young, head of SeoulBank, said the decision to save Dong-ah was based on the need to prevent a large water irrigation project the Korean construction group is building in Libya from being discontinued. **John Burton, Seoul**

ACCOUNTANCY

Cendant fires Ernst & Young

Cendant, the US direct marketing company that announced last month it had discovered potential accounting irregularities that might cut its profits for last year by more than $100m, yesterday dismissed Ernst & Young, the accounting firm that had acted as auditors for the business where the alleged irregularities occurred.

The problems occurred at the membership organisation of CUC International, the company that merged with HFS to form Cendant at the end of last year. Cendant, which had already dismissed the former CUC's chief financial officer, said that Deloitte & Touche would continue to serve as the company's principal independent auditors, and would take over responsibility from Ernst & Young for the restatement of last year's results.

Cendant said it expected to issue audited financial statements by the summer, and that its schedule would not be delayed as a result of the change in auditors. Its share price slipped slightly in morning trading yesterday, down $$\frac{7}{16}$ at $23⅝. It was trading at $42 before the alleged irregularities were announced. **John Authers, New York**

INSURANCE HOSTILE CASH OFFER FOR ALLIED GROUP

Nationwide launches $1.5bn takeover bid

By John Authers in New York

Nationwide Insurance Enterprise, the fourth largest US general insurer, yesterday launched a $1.5bn hostile cash offer for Allied Group, the largest insurer in Iowa.

It is the largest hostile takeover bid by a mutual insurance company and offers Allied's shareholders a premium of 69 per cent compared with Friday's closing price.

By midday, Allied's shares had gained $\$14\frac{13}{16}$ to $\$42\frac{1}{16}$. This is still some way short of Nationwide's offer of $47 per share. There is a separate offer of $65m for preferred stock.

Nationwide said that it could pay for the deal with cash it already held on deposit. "We are serious about this and expect to win."

In a letter to Allied's senior executives, Dimon McFerson, Nationwide chief executive, said he regretted taking the offer directly to shareholders.

However, he added: "We are taking these steps because our efforts to effect a merger with Allied Group through negotiations with you and your board have been consistently frustrated. We have spoken several times on this subject, starting in January, and I have repeatedly tried to persuade you of the great advantages of a combination of our two companies."

Nationwide – which has no plans to demutualise in spite of recent announcements that Prudential Insurance of America and John Hancock Mutual would seek to float on the open market – said the deal would be driven by increased revenues and not cost cuts.

Mr McFerson said combining the two companies' property and casualty insurance operations would provide necessary scale and that there was a geographic fit. Nationwide, which is based in Columbus, Ohio, is active mainly east of the Mississippi and has recently started an attempt to diversify its distribution system away from a traditional reliance on its own agents. Allied is based west of the Mississippi and distributes primarily through independent agents.

Hostile takeovers are rare in the insurance sector, because insurers are regulated on a state-by-state basis. This makes regulatory approval for mergers very difficult to obtain without the help of the target company. Acquisitions involving mutual companies are also rare, because of the prohibitively high legal costs.

However, Cendant succeeded in a hostile tender offer for American Bankers Insurance of Miami earlier this year. Large insurers now seem prepared to consider hostile bids, as they attempt to bolster their strategic position in response to the large deals that have been seen recently in the banking sector.

Credit Suisse First Boston acted as financial adviser and dealer manager to Nationwide.

All for the love of music

Alice Rawsthorn looks at Seagram's motives for pursuing PolyGram

When Edgar Bronfman Jr, Seagram's chief executive, set his sights on buying MCA, the Hollywood movie studio, he flew alone to Osaka in his Gulfstream IV jet to meet the president of Matsushita, its Japanese parent.

At their meeting, Mr Bronfman persuaded Matsushita to begin exclusive talks with Seagram. Free from the threat of a corporate auction, he struck a deal to buy 80 per cent of MCA, which Wall Street valued at up to $10bn, for $5.8bn.

Unfortunately for Mr Bronfman, the run-up to his latest takeover attempt – negotiating the purchase of PolyGram, the Dutch music and film group, with Philips, its majority shareholder – has been more complicated. This time, negotiations have been conducted in public, and he has had to prepare an offer for submission to the Philips board today against the threat of counter-bids from several US investment consortia.

Mr Bronfman, 43, cannot afford to fail and has raised his upper price limit for PolyGram from $10bn to more than $10.5bn. Bruised by criticism of MCA's recent performance, he sees turning Seagram into the world's biggest music group as a masterstroke to justify his expensive foray into the entertainment industry.

The key to Mr Bronfman's thinking lies in a sign he once placed under an office portrait of his grandfather, the picaresque bootlegger who founded Seagram. It cited one of his grandfather's sayings: "Shirt-sleeves to shirt-sleeves in three generations."

Seagram has been run by the second generation of Bronfmans since 1971, when Mr Bronfman's father and uncle became chairman and co-chairman of the management board, respectively. The company flourished, helped by the 1981 acquisition of a 24 per cent stake in Du Pont, the US chemicals company. By the mid-1990s, the stake had trebled in value and provided roughly half of Seagram's annual profits.

When Mr Bronfman became chief executive in 1989, he wanted to make his mark on Seagram. The global drinks market was mature, and rather than expand further in chemicals, he chose to diversify into entertainment, an area closer to his own interests.

Before joining Seagram, Mr Bronfman had lived in Los Angeles, working as a songwriter and aspirant film producer. A friend from that era remembers him "as a sweet, bright guy, who loved films and was absolutely crazy about music".

By 1995, Mr Bronfman had persuaded his father and reluctant uncle to sell the Du Pont shares, and buy MCA. The deal was criticised on Wall Street, but initially welcomed in Hollywood, until it became evident that Mr Bronfman had bought MCA without deciding on a strategy, or a new management team.

"People are more sceptical of a person's ability if he's born with money," Mr Bronfman remarked to Vanity Fair magazine shortly after the acquisition. He has struggled ever since to convince his sceptics that he is not a starstruck brat frittering away his family fortune.

Occasionally, the Bronfmans have played into their critics' hands by making it apparent that they still see Seagram as a family firm, even though they only own 35 per cent of it.

Before PolyGram, Mr Bronfman was intent on acquiring EMI, the troubled UK music group, and told the New Yorker magazine that "if it means overpaying, I would rather be called a schmuck for another few years". In the same article, his father explained the decision not to bid for Du Pont with: "What fun would it have been (for Edgar Jr.) to go to Wilmington, Delaware and run that business?"

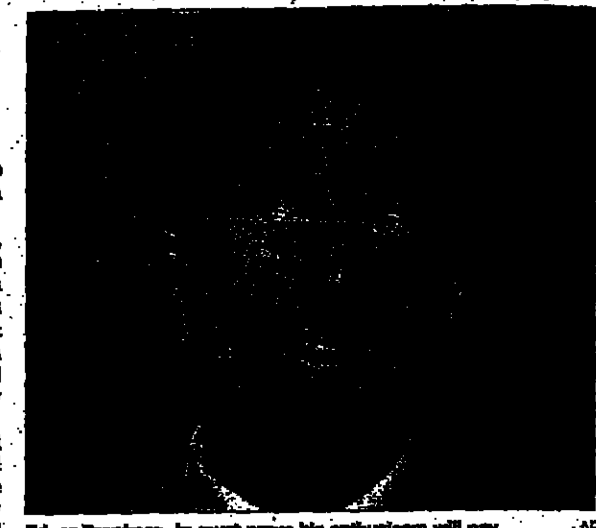
Running the world's largest record company would undoubtedly be fun for someone who is "absolutely crazy about music".

Music has been the most successful of the old MCA businesses under Seagram, and it is an industry where enthusiasm is a managerial asset. The most successful record executives tend to be entrepreneurs, who combine business flair with a love of music – like Ahmet Ertegün, founder of Atlantic Records in the US, or Alan McGee, chairman of the UK's Creation Records – rather than "suits", such as Sir Colin Southgate, the British industrialist who chairs EMI.

Yet Mr Bronfman's critics argue that his enthusiasm – bolstered by the counsel of David Geffen, the music mogul who has been advising him on the PolyGram deal – is goading Seagram into expanding in music at a perilous time when global record sales are sluggish, and internet piracy is rising.

The deal could run into antitrust problems in the US, where Seagram and PolyGram would have a combined market share of 24 per cent. It might also come under political pressure in Europe, if Seagram tries to dismantle PolyGram's film business, by far the largest in the region. Mr Bronfman also faces the daunting prospect of melding the best of PolyGram and Seagram's management into a bigger entertainment subsidiary.

Despite these difficulties, he is still intent on clinching the deal that, he hopes, will defuse his grandfather's fears for Seagram under the "third generation" of Bronfmans.



Edgar Bronfman Jr: must prove his enthusiasm will pay AP

NEWS DIGEST

RETAIL

Mercantile Stores sold to Dillard's for $2.9bn

Dillard's, the US department store chain based in Little Rock, Arkansas, has agreed to buy Mercantile Stores in a $2.9bn cash transaction valuing Mercantile shares at $80 each. Mercantile operates 119 stores, mainly in the south and mid-west of the US, under 13 different names and generated sales of more than $3bn last year. The Milliken family, holders of approximately 40 per cent of the stock of Mercantile Stores, has contractually agreed to support the transaction.

"This acquisition will allow us to broaden the markets in which we have stores and help us to better serve customers in our existing markets," said William Dillard, chief executive officer of Dillard's and the son of the founder. Dillard's, established 60 years ago, operates 272 department stores in 27 states aimed at middle and upper-middle income customers. **Tracy Corrigan, New York**

HEALTHCARE

Cardinal acquires RP Scherer

Cardinal Health, a healthcare services company, has agreed to buy RP Scherer, a manufacturer of drug delivery systems, in a deal valued at $2.2bn. "We are very excited about this merger with Scherer and the potential it offers for greatly enhancing both companies' current range of services to drug manufacturers," said Robert Walter, chairman and chief executive officer. Cardinal offers services such as pharmaceutical distribution, hospital pharmacy management, pharmaceutical packaging and clinical information systems development. Scherer is the world's largest producer of soft gelatin capsules.

Under the terms of the agreement, Scherer shareholders will receive 0.95 Cardinal Health shares per common Scherer share held. Cardinal will issue about 23m shares and is expected to assume about $1.59m in long-term debt. The deal has been structured as a tax-free transaction, to be accounted for as a pooling of interests. **Tracy Corrigan**

RETAIL

Office Depot strikes Viking deal

Office Depot, the US office products retailer, yesterday announced that it was buying Viking Office Products, a mail-order supplier, in a stock swap valued at about $3bn. The deal continues a consolidation trend within the retailing industry, and followed a similar buy-out of a mail-order supplier by Staples, Office Depot's biggest rival in office products retailing. By mid-session, Office Depot's share price had dropped about 10 per cent, off $\$3\frac{1}{2}$ at $\$30\frac{5}{8}$, while Viking had gained about 25 per cent, up $6 at $\$29\frac{5}{8}$.

The company said that cost cuts would allow it to enhance earnings per share for both companies next year. It predicted annual savings of $35m next year, rising to $55m in 2000. Nine Viking distribution centres will be closed, and the company also expects to gain from greater efficiencies in its information technology operations, and from increased purchasing power. Office Depot also expects to increase revenue by using Viking's operations in Europe, with the UK and Germany targeted for expansion. **John Authers, New York**

COMPANIES & FINANCE: ASIA-PACIFIC

EQUITIES JAPANESE MARKET'S FALL TO FOURTH PLACE BLAMED ON FALLING CURRENCY

London replaces Tokyo as fund management capital

By Gillian Tett in Tokyo

Tokyo has been knocked off its position as the world's largest equity investment centre after the value of equity funds managed by institutional investors in the city plunged 32 per cent last year, to Y1,104bn ($8.2bn).

London, by contrast, saw funds under management surge 48 per cent to $1,808bn, making it the largest equity investment centre in the world, according to Technimetrics, a US-owned research and database company.

Boston and New York also increased their funds under management to take third and second places, respectively, in the global ranking.

Tokyo's fall to fourth place is a humiliating blow for the Japanese authorities, who had considered their capital to be one of the world's premier financial centres.

The government's "Big Bang" reform proposals are intended to make Tokyo more attractive as a financial centre.

Technimetrics compiled the report from mutual fund information, stock market listings, government reports and company accounts around the world.

It blames Tokyo's decline last year in part on the falling currency. The yen yesterday touched a six-and-a-half year low of Y135.5 against the dollar.

Tokyo's position has also suffered because the Japanese stock markets weakened last year. At the same time, London's stock market index rose by about 25 per cent. This left the market capitalisation of the London Stock Exchange larger than the Tokyo stock exchange for the first time.

Tokyo's position was also undermined by the decline in other Asian stock markets.

Many equity analysts in Tokyo also said they suspected that there was a growing tendency for Japanese investors to conduct trades overseas to avoid expensive red tape.

Ken Okamura, equity analyst at Dresdner Kleinwort Benson, said: "These figures do not surprise me at all. With yen weakness I think more capital could flow overseas out of Japan."

Technimetrics said Tokyo's decline represented a sharp contrast with earlier years: in 1990, Tokyo's equity assets were larger than the next 14 largest cities put together.

However, the company said that the "Big Bang" reforms could help revitalise Tokyo.

In particular, the reforms could suck up to Y10,000bn of assets out of low-yielding bank accounts into domestic and foreign equities, it said.

London's growth as a fund management centre stemmed from the fact that US investors were increasingly diversifying into European stocks, said Technimetrics.

Packer passes control to son

By Russell Baker in Sydney

Kerry Packer, Australia's richest man, has handed day-to-day running of his media empire to his 30-year-old son, James, and appears to have tightened his grip on the John Fairfax Australian newspaper group.

James Packer was yesterday appointed executive chairman of locally listed Publishing and Broadcasting (PBL) and chief executive of the family's privately-owned Consolidated Press Holdings.

CPH holds 45 per cent of PBL, which owns the Nine national television network and Australia's largest stable of magazines. CPH also owns 45 per cent of the FXF Trust, which has a 14.9 per cent shareholding in John Fairfax.

Brian Powers – the man whom James Packer is succeeding at PBL and CPY – has been appointed to the board of Fairfax and intends to buy a 14.9 per cent stake in FXF Trust.

Kerry Packer has long held an ambition to control John Fairfax, which publishes the Sydney Morning Herald, Melbourne's Age newspaper and the Australian Financial Review.

However, Australia's cross-media ownership rules forbid him from owning more than 14.9 per cent of Fairfax because he controls a television network.

Mr Powers yesterday severed all official links with PBL and CPH, but his appointment as a Fairfax director will be seen by many as giving Kerry Packer another ally on the Fairfax board.

Yesterday's manoeuvres sparked further speculation about the future of Fairfax, which may soon see a big change to its share register.

There has been much talk that Brierley Investments (BIL), the New Zealand-based investment group, may be looking to sell its 24 per cent shareholding in Fairfax. BIL is reviewing all its investments in the wake of the recent sudden resignations of Paul Collins, chief executive, and Bob Matthew, chairman.

Meanwhile, James Packer's elevation to the top jobs at PBL and CPH is part of a wider changing of the guard at the Packer empire. PBL also announced that Nick Falloon, 40, had been appointed chief executive, a position that had been held by James Packer.

Speaking as a retiring Packer executive, Mr Powers said the "appointments complete the management transition which began two years ago. It leaves PBL with a top management team" that is "young, bright, experienced and well equipped to lead the company well into the future".

Marubeni cuts profits forecast

Marubeni, one of Japan's leading trading companies, expects group profits to be significantly lower than forecast because of the adverse impact of the currency crisis in south-east Asia, writes **Michiyo Nakamoto** in Tokyo.

The group, which has been aggressively expanding in the region, revised its net profits forecast to Y17bn ($127m), from Y30bn previously. It blamed an extraordinary loss of Y9bn stemming from currency losses related to Indonesian and Thai interests.

The trading company has 64 subsidiaries and affiliated businesses in south-east Asia, of which 23 are in Indonesia and 16 are in Thailand. The operations cover sectors ranging from textiles, metals and construction to chemicals.

As many of these companies have borrowed funds in US dollars, the sharp decline in the Indonesian and Thai currencies has resulted in a surge in short-term debt which they need to service, Marubeni explained.

Chandra Asri, a chemicals plant in Indonesia in which Marubeni has a 21 per cent stake, is likely to be a further drain on company funds, according to Kota Nakako, analyst at SBC Warburg. Last year Marubeni had to invest $150m in the plant, raising its total investment to $220m. However, the weak chemicals market means further support may be necessary.

Marubeni's weakened credit rating could hit its ability to raise funds at attractive rates. Moody's is reviewing Marubeni's single A-2 senior debt rating.

Nikon hit by slow sales of chip parts

Nikon, the Japanese electronics group, yesterday announced a near halving in net earnings for the last financial year and warned that profits would fall by a further 76 per cent this year, writes **Alexandra Harney** in Tokyo.

The company blamed slow sales of semiconductor components and a collapse in the price of dynamic random access memory (D-Ram) chips.

Net earnings dropped almost 50 per cent to Y8.36bn ($62m) in the year to end-March. In the current year they are forecast to fall to Y2bn.

Nikon predicted continued difficulties in Asia and said it would cut its dividend from last year's Y8 a share to Y5.

The shares slid 5 per cent to close at Y1,007 on news of the profits decline.

Yutaka Sugiyama, semiconductor analyst at SBC Warburg in Tokyo, warned that the industry was likely to deteriorate further because of overcapacity and low demand in Asia.

The semiconductor components, known as steppers, account for more than half of Nikon's sales.

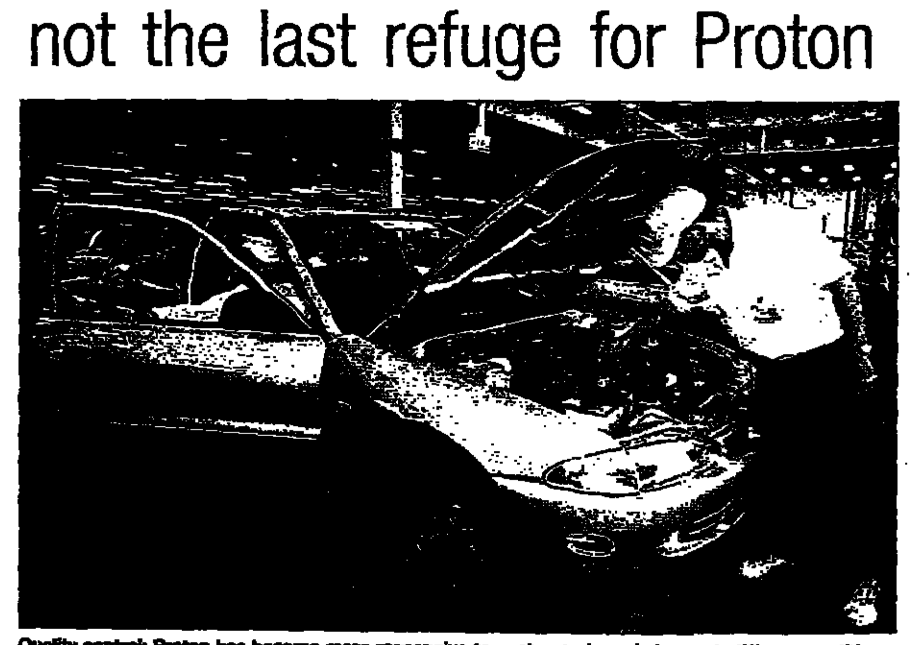
Meanwhile, a steady increase in overseas sales helped Omron, the manufacturer of factory automation equipment, to increase group net profits 16 per cent to Y18.3bn in the year ending in March.

Turnover was up 3 per cent at Y612bn.

Strong performances in factory control components in Europe and America, and growth in domestic sales of healthcare devices, contributed to the results.

Patriotism not the last refuge for Proton

Restructuring is seen as the salvation of Malaysian carmaker, writes **Sheila McNulty**



Quality control: Proton has become more responsive to customers' needs to meet stiffer competition

A year ago, would-be buyers of Malaysia's national Proton car faced a six-month waiting list. Those who wanted a say in the colour or accessories often had to wait even longer. Sales staff were inattentive; sales promotions unheard of.

Now, promotions are the norm: customers are readily given a choice of everything from the floor mat to the car cover, and buyers can drive a Proton off the forecourt.

The region's economic crisis has, for now, dented demand for the car, but analysts say Proton must undertake extensive restructuring to prepare for 2003, when it faces a stiffer challenge – the removal of tariffs on foreign cars.

Proton's success has been built on imprudent lending, and the financial crisis is rattling its shaky foundations. Financial institutions, which had once freely lent 90 per cent of the purchase price without demanding too much in the way of collateral, find themselves under growing pressure. As the economy has slowed, Malaysians have had trouble making monthly payments. Repossessions are mounting and bankers growing increasingly selective in their lending.

The carmaker expects domestic sales to drop 60 per cent this year. It has cut production, halted recruitment, ended overtime, reduced annual bonuses and frozen pay. The company has even delayed building a M$5.75bn ($1.5bn) plant and town, dubbed Proton City, and is leasing plots on the project's land for Malaysians to grow vegetables.

"People buy a Proton because it's what they can afford. It's not what they want," says Jonathan Duckett, a member of the institutional sales team at Paribas Asia Equity. "They really need a product that will fight with the best of them."

That means using the expertise of Lotus, the UK carmaker controlled by Proton's parent company, the DRB-Hicom Group, to update its designing and engineering.

Analysts believe Proton must build key parts, such as the engine, in Malaysia to cut down on high import costs. It also needs to negotiate better prices for parts sourced locally.

Most important, the carmaker must become more responsive to the needs of shareholders than those of the nation. That means retrenching staff at a time when revenue is shrinking.

However, the Proton owes its very survival to the government, and Mohd Saleh Sulong, chairman, said recently that the country's "political masters have urged employers not to be hasty in retrenching".

"Weak demand and intensifying price wars should tip auto earnings into negative territory if Proton does not cut its costs fast enough," says Jenny Yeow, assistant vice-president of Merrill Lynch in Malaysia. She projects that the carmaker's net income will fall from 1997's M$741.5m to M$676.6m for the year ended March 31, and to just M$31m in 1999.

Proton, however, is hoping its new emphasis on exports will pull it through the downturn. The carmaker expects to export 52,000 vehicles in 1998-99, up from 30,000 in the year just ended. So far Proton has not had an easy time making inroads abroad, where Japanese, European and US brands are better known.

Analysts hope the carmaker sees its salvation in restructuring and not just in its status as the national car. But there is no doubt Mr Mohd Saleh is counting on patriotism to help it through the months ahead. "The people of Malaysia do not want to see Proton fail," he says. "We have the support of everyone."

MORE GROUP INCREASES SHARE OF UK OUTDOOR ADVERTISING MARKET THROUGH ACQUISITION OF TOWN & CITY

Vivendi disposes of its 20% Decaux stake

By Andrew Edgecliffe-Johnson

The battle for control of More Group, the UK outdoor advertising company, took a further twist yesterday as Vivendi, the former Compagnie Générale des Eaux, sold its 20 per cent stake in Decaux, More's French suitor.

Decaux denied speculation that Vivendi had sold its stake back to the family-owned Decaux group because it opposed the bus shelter and billboard group's planned £475m ($793m) takeover of More.

Neither company would comment on speculation that Decaux paid only $50m-$75m to buy the stake back, giving the family of founder Jean-Claude Decaux 100 per cent control of the group. The stake is thought to have been offered to More Group previously for between $75m and $100m.

Vivendi said the stake, acquired several years ago, was too small to be of strategic interest, while Decaux said: "There is no question of Vivendi being unhappy with our bid. They told us long before we mooted this takeover that they wished to withdraw."

More Group, meanwhile, muddied the waters ahead of the UK competition authorities' impending decision on whether a Decaux takeover would create an excessively dominant company. It lifted its share of the UK outdoor advertising market by about 1½ per cent through the £7.5m ($12.5m) acquisition of a regional billboard group, Town & City.

Roger Parry, More's chief executive, said this would give More a 26 per cent market share, while Decaux – which has a 4 per cent share – said the figure was 24 per cent.

Analysts said that Margaret Beckett, the trade and industry secretary, was unlikely to be influenced by the acquisition when she rules this week on whether Decaux's offer should be referred to the Monopolies and Mergers Commission.

Town & City, which had gross sales of $7.5m last year, will give More Group 20 per cent more 96-sheet panels and 55 per cent more 48-sheet billboards.

It also emerged that More's bank debts have risen from £40m at the end of last year to about £100m, because of acquisitions and investment in new bus shelters.

One banker not connected to More claimed that More's banking syndicate, led by Barclays and Chase, may have reservations about extending the facility to Decaux.

Decaux said the increase in More's debts would not affect its ability to outbid Clear Channel, which had agreed an earlier £446m bid for More.

"We are prepared to pay a significant premium for this business, and our financing has been put in place with that in mind," the company said.

STH plans a flotation in New York and Amsterdam

By Alan Cane

Sita Telecommunications Holdings (STH), which operates the world's largest data communications network for the airlines that control it, confirmed yesterday that it was planning a stock market flotation expected to value the company between $3bn and $3.7bn.

Some 15 per cent of the company is expected to be floated in New York and Amsterdam later this year giving gross proceeds of between $400m and $500m which will be used "to sustain the rapid growth of the company."

STH also confirmed that it and its subsidiaries were changing their names to Equant in a move to develop that name as a global brand.

Sita, the Société Internationale de Télécommunications Aeronautique, a non-profit organisation established 50 years ago to provide telecoms services for the world's airlines, owns 60 per cent of STH. Morgan Stanley Capital Partners has a 30 per cent stake with the remainder owned by employees. No existing shareholder intends to sell any part of its stake and the flotation will take place through the issue of new shares.

The price will be set by a book-building exercise. Morgan Stanley Dean Witter and Salomon Smith Barney have been appointed joint global co-ordinators while Morgan Stanley Dean Witter will be sole bookrunner.

The change of name affects STH's operating divisions. ITS, which becomes Equant Integration Services and Novus which becomes Equant Application Services. Equant Network Services, which operates the global network, is unchanged.

Didier Delepine, chief executive, said the funds raised would buy networking capacity. He said owning rather than leasing network assets would enable the company to reduce prices.

Equant came into being as the vehicle for Sita to sell extra network capacity to customers other than the airlines. These include Shell, Xerox, the international banking network Swift and SGS-Thomson, the computer chip maker. They now account for about 45 per cent of traffic over the network.

Equant is in competition with global alliances including Concert, owned by British Telecommunications, Global One owned by Deutsche Telekom and France Telecom and AT&T World Partners.

Last year its turnover was $530m ($390m). Losses before tax were $27.7m ($30.5m), but the company had positive earnings before interest, tax, depreciation and amortisation.

Mattel lifts bid for Bluebird

By David Blackwell

Mattel, the US toy group battling to acquire the producer of Polly Pocket miniature playsets, yesterday topped its rival by a suitably diminutive halfpenny.

The US group's dip into Polly-sized pockets takes its bid for Bluebird Toys to 116½p, valuing the target at about £48.1m ($80m). The shares closed up 2p at 116p.

Polly is not the only attraction at Bluebird, although she does account for 50 per cent of its sales. Her colleagues in the miniature world of playsets include Mickey Mouse, Donald Duck, and Batman.

Last week Guinness Peat, the investment company chaired by Sir Ron Brierley, raised its original January offer from 101p to 116p – 5p above Mattel's original offer. The offer was declared final.

"That really has got to be it," said one analyst. "Maybe shareholders will actually get their money now."

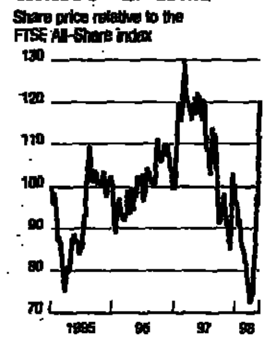
Chris Burgin, Bluebird's chief executive, said he was delighted Mattel had raised its offer, which the board was continuing to recommend. Mattel at the end of last week had received acceptances for 11.2m shares, or just under 27 per cent. Among those accepting was Hasbro, Mattel's US rival, with 6.9 per cent.

Blake Nixon, a Guinness Peat director, said yesterday that the group would be accepting the offer "unless something extraordinary happened." The group had paid an average of 89p a share for its stake, so the return was "not too bad".

COMMENT

Christie's/Artemis

Christie's International
Share price relative to the FTSE All-Share index



Source: Datastream/ICV

François Pinault has let Christies shareholders enjoy a last blockbuster sale. At 18 times operating profits, his £721m agreed offer is unlikely to entice other bidders into the fray. Fortunately for Mr Pinault, he does not have demanding investors to hold him to account for overpaying: Credit Lyonnais – whose 24 per cent stake in his holding company Artemis is marked for disposal – is hardly an authority on how to preserve shareholder value. Artemis has paid heavily for market leadership in an industry with high barriers to entry. With margins and profits per employee higher at Sotheby's, its main competitor, Christies has room for improvement. But with Mr Pinault reluctant to shake up its blue-blooded culture, trenchant cost-cutting is unlikely.

Where Artemis may add value is in increasing the auction house's financial sophistication as it moves further away from pure commission-based sales. Developing higher margin financial services to include more than taking principal positions and providing short-term loans to customers is one possibility. But it is hard to imagine Artemis being better at this than the financial engineers at SBC Warburg, which bid some £200m less for Christie's at the start of the year.

Furthermore, the international art market is at its post-1989 peak. The high prices paid for the finest objects, particularly within the key area of post-1870 paintings and sculpture, should draw out more desirable goods to keep Christies busy. But with financial uncertainties in south-east Asia and Japan leaving responsibility for growth to the continuing success of the US and European economies, Mr Pinault may find demand more elusive.

More Group

With impolitic timing, Vivendi has thrown its 20 per cent stake in Decaux back to the outdoor advertiser's family owners at a crucial moment in their bid for More Group. Clearly, for the French utility to sell non-core holdings is sensible. But since a flotation of Decaux is on the cards, hanging on to the stake would have realised more than the rumoured $50m-$75m. Such behaviour on Decaux's part raises question about whether it had all its ducks in a row on this aggressive bid just days before the all-important competition ruling.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Cambridge A'body	6 mths to Mar 31	0.945	(0.265)	2.97L	(8.41L)	13.4L†	(50.5L)	-	-	-	-	-
Celltech	6 mths to Mar 31	5.7	(2)	2.5♥	(5.9L)	3.1	(7.9L)	-	-	-	-	-
Diploma	6 mths to Mar 31	147.9	(125.5)	7.6♠	(10.8)	8.1‡	(12.3)	4.5	July 1	4.5	-	14.5
Fine Art Devs	Yr to Mar 31 ⚹	217.1	(235.5)	7.89♠	(10.2♠)	3.59	(5.74)	7.75	July 2	12.8	11.65	16.5
Paragon	6 mths to Mar 31	-	(-)	11.1	(10♠)	12.1	(11.4)	1.3	July 31	1.2	-	2.7
Revel'n Piccadilly Φ	Yr to Feb 28	12.1	(5.58)	1.03	(0.27)	0.922	(0.692)	0.2	July 20	0.079	0.3	0.079
RM	6 mths to Mar 31	50.5	(49)	0.636	(1.68)	2.4	(6.3)	2.7	June 19	2.3	-	9.5
Style Φ	Yr to Feb 28	35	(27.3)	1.98	(1.53)	9.9†	(8.8)	0.87	July 1	-	0.87	-
UPF	6 mths to Feb 28	30.2	(31.6)	3.56	(3.77♥)	6.5	(7.11)	1.7	June 19	1.7	-	4.8
Wolv & Dudley	6 mths to Feb 28	140	(133)	20.3♥	(18.8♥)	22.1	(19.6)	7.26	June 26	6.6	-	18.7
Young (H)	6 mths to Mar 31	38.1	(29.3)	2.2	(1.64I)	6.6†	(5.7)	1.5	July 10	1.4	-	4.6

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Fleming Inc & Cap	Yr to Mar 31	154	(107.04)	8.12	(6.53)	6.54	(5.27)	1.5	June 1	1.55	5.8	5.45
F&C Inc Growth	Yr to Mar 31	145.7	(115.22)	1.68	(1.58)	3.88	(3.6)	1.25	June 24	1.5	3.65	3.55
Schroder Split	3 mths to pr 30	-	(-)	-	(-)	-	(-)	2.1	June 30	2.1	-	8.6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡‡‡‡‡On reduced capital. ⚹Comparatives pro forma. ΦAim stock.

Bittersweet farewell as Savoy goes west

By Scheherazade Daneshkhu

The Abraham Lincoln and Manhattan rooms were an apt choice as the venue for the Savoy Hotel's annual meeting yesterday. The 109th meeting was the last before the group of luxury hotels, which has long fought off predators, passes into American ownership.

The hotel was founded in 1889 by the impresario Richard D'Oyly Carte to accommodate visitors to the Gilbert and Sullivan comic operas staged at his adjoining Savoy Theatre.

Anthony Jones, whose love of the operas led him to buy shares 21 years ago, had travelled from Gloucestershire to be present. "It is very sad that having fought off so many bids the management caved in so quickly," he said. "I've every respect for the Americans but it seems a shame the Savoy is going abroad."

With a gravity befitting the occasion, Sir Ewen Fergusson, chairman, told the 400 shareholders that he well understood the mixture of emotions many felt about the £520m ($868m) sale to Blackstone Hotel Acquisitions, a company controlled by Blackstone and Colony Capital, two US investment groups. He offered a guarantee on behalf of the management that the Savoy and its traditions would be preserved under the new owners.

EURO PRICES

EQUITIES

Europe falls on rate worries

EUROPEAN OVERVIEW

By Martin Dickson

Trans-European equity indices fell yesterday amid concern over US interest rate trends and political turmoil in Indonesia.

The FTSE Eurotop 300 index closed at 1,201.99, down 20.35, while the Eurotop 100 index dropped 53.54 to 2,758.78. The Ebloc 100, which focuses on companies domiciled in founder members of the euro currency zone, dipped 16.4 to 1,000.39.

A strengthening dollar and some safe-haven buying of US Treasuries helped European bond markets to modest gains, though the market was restrained by fears that today's meeting of the US Federal Reserve's open market committee might, against general expectations, tighten monetary policy. The benchmark 10-year German bond was quoted in late trading around 101.90, to yield 4.99 against 5.00 on Friday night.

Among equities, the best performing sector was investment companies, which jumped 6.03 per cent, thanks to a 10 per cent rise in Société Générale de Belgique, the Belgian holding company, which closed up Ecu 14.3 at Ecu 157.72. French utilities group Suez Lyonnaise des Eaux announced plans to buy out the shares in the company it did not already own.

Other sectors that closed in positive territory included other financials, building materials, support services, transport and information technology.

The broad financial sector suffered from jitters over Indonesia, with retail banking off 1.97 per cent and insurance down 1.87.

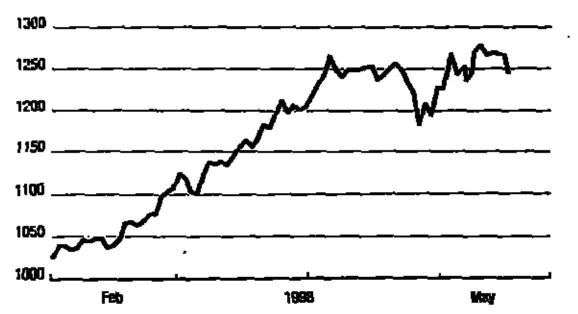
Pharmaceuticals dropped 2.69 per cent, with Glaxo Wellcome down Ecu 0.9 to Ecu 24.66 after reporting that first-quarter profits had been hit by the expiration of certain patents and the strength of sterling. Elf Sanofi was off Ecu 2.7 at Ecu 102.98, while Novartis dipped Ecu 37.6 to Ecu 1454.73.

Oil exploration and production dropped 3.46 per cent, with Enterprise down Ecu 0.3 at Ecu 8.66, while automobiles fell 2.39 per cent, with BMW down Ecu 33.5 at Ecu 986.12 and Renault Ecu 1.7 lower at Ecu 44.95

Paper and packaging fell by 2.36 per cent, with Alusuisse Lonza down Ecu 28 at Ecu 1196.11 and BIC Ecu 2.7 lower at Ecu 65.29.

Eurotop 300 Eurobloc

Index



Source: FTSE International

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.750	95.750	-	95.760	95.750	751	12540
Sep	95.790	95 790	-	95.790	95.790	378	17542
Dec	95 890	95.905	+0.005	95.905	95.890	76	7154
Mar	95.795	95 795	-0.005	95.795	95.795	2	5187

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS May	CALLS Jun	CALLS Jul	CALLS Sep	PUTS May	PUTS Jun	PUTS Jul	PUTS Sep
96000	0	0.005	0.005	0.025	0.250	0.255	0.215	0.235
96125	0	0			0.375	0.375		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	2775.0	2756.0	-49.0	2775.0	2763.0	140	598
Sep		2762.0	-49.0			0	5

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2750 C	2750 P	2775 C	2775 P	2800 C	2800 P	2825 C	2825 P	2850 C	2850 P	2875 C	2875 P	2900 C	2900 P	2925 C	2925 P
Jun	-	-	95	68	81	79	68	91	57	104	47	119	-	-	-	-
Jul	-	-	133	101	119	112	105	123	94	136	83	149	-	-	-	-

Calls - Puts - Premiums shown are based on settlement prices. Data unavailable for May 18.

OTHER INDICES

	May 18	May 15	May 14	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3231.71	3291.24	3298.97	3386.80	2574.51	3386	2976.42
DJ Euro Stx 50	3253.33	3304.68	3305.41	3345.86	2466.81	3345.86	2865.52
MSCI Europe	1217.70*	1219.13	1222.54	1240.82	980.50	1240.82	510.78

Source: Extel/part of FT information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

May 18 National & Regional Markets	Ecu index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1201.99	-1.66	-20.35	1.98	12.04	1223.65
FTSE Eurotop 100	2758.78	-1.90	-53.54	2.05	10.04	978.01
FTSE Ebloc 100	1000.39	-1.61	-16.40	1.64	4.50	1004.87
FTSE Eurotop 300 Regions						
Eurobloc	1248.84	-1.53	-19.44	1.61	8.13	1261.79
UK	1118.05	-1.81	-20.65	2.86	18.08	1154.84
Europe Ex-Eurobloc	1165.69	-1.79	-21.30	2.35	14.70	1192.70
Europe Ex-UK	1250.45	-1.59	-20.18	1.54	8.60	1262.42
FTSE Eurotop Industry Sectors						
RESOURCES	1033.48	-2.15	-22.74	2.68	13.08	1061.68
Extractive Industries	923.16	-2.73	-25.89	2.80	0.00	923.16
Oil, Integrated	991.96	-2.10	-21.24	2.68	6.09	998.13
Oil, Exploration & Prod	1051.37	-3.46	-37.73	2.30	0.00	1051.37
GENERAL INDUSTRIES	1194.76	-1.43	-17.34	1.81	10.27	1208.56
Construction	1020.94	-1.39	-14.43	2.96	0.00	1020.94
Building Matls & Merchs	1046.86	+0.81	+8.39	2.53	0.00	1046.86
Chemicals	1021.54	-0.48	-4.91	2.11	8.65	1030.44
Diversified Industrials	992.25	-1.79	-18.10	1.91	4.24	996.41
Electronic & Elect Equip	1032.18	-1.92	-20.20	1.80	0.00	1032.18
Engineering	1017.93	-1.01	-10.41	2.27	1.02	1018.94
Paper, Pckg & Printing	1014.81	-2.36	-24.50	2.31	0.00	1014.81
CONSUMER GOODS	1128.06	-2.19	-25.20	1.65	9.86	1150.11
Automobiles	1028.05	-2.39	-25.13	0.87	1.98	1029.96
Alcoholic Beverages	974.23	-2.17	-21.59	2.37	1.86	976.08
Food Producers	991.73	-1.33	-13.32	1.63	2.22	993.94
Household Goods & Texts	1019.81	-2.02	-21.06	1.21	0.72	1020.53
Healthcare	995.88	-1.51	-15.31	2.30	0.00	995.88
Pharmaceuticals	984.07	-2.69	-26.67	1.38	1.03	985.08
Tobacco	977.82	-0.64	-6.30	4.33	0.00	977.82
SERVICES	1148.03	-1.07	-12.37	1.86	9.59	1166.85
Distribution	974.16	-2.04	-20.34	1.01	2.70	976.79
Leisure & Hotels	1005.03	-1.10	-11.22	2.40	0.00	1005.03
Media	1023.28	-0.87	-9.03	2.25	1.29	1024.56
Retailers, Food	963.76	-1.02	-9.94	2.10	4.99	968.72
Retailers, General	1004.44	-0.10	-1.01	2.23	0.00	1004.44
Telecommunications	980.80	-1.83	-18.33	1.74	2.31	983.17
Breweries, Pubs & Rests	946.22	-1.60	-15.37	2.84	4.91	951.07
Support Services	982.20	+0.13	+1.27	1.32	3.20	985.41
Transport	1016.89	+0.23	+2.35	2.37	0.59	1017.50
Information Technology	1000.75	+0.18	+1.82	0.41	2.23	1003.02
UTILITIES	1273.64	-0.70	-8.93	3.40	23.71	1312.74
Electricity	969.83	-0.51	-4.97	3.53	0.00	969.83
Gas Distribution	989.41	-0.74	-7.30	1.86	83.72	1072.88
Water	948.86	-1.72	-16.56	5.81	0.00	948.86
FINANCIALS	1318.94	-1.82	-24.48	1.91	14.87	1341.54
Banks,Retail	963.66	-1.97	-19.36	2.15	4.24	967.77
Insurance	955.84	-1.87	-18.21	1.33	3.23	958.97
Life Insurance	956.08	-1.49	-14.46	1.56	3.19	959.25
Other Financial	974.83	-3.21	-32.36	2.02	6.00	980.67
Investment Companies	1086.01	+6.03	+61.81	2.03	0.00	1086.01
Property	930.86	-1.40	-13.21	2.84	0.00	930.86

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CURRENCIES & MONEY

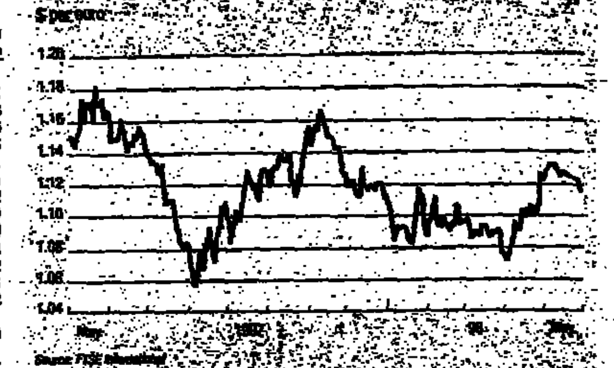
FT SYNTHETIC EURO RATES

May 18	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.064940	-0.0019	-0.01	-0.0014	-0.01
Belgium	BEF	41.265945	+0.0155	+0.04	+0.0248	+0.06
Czech Republic	CZK	36.434455	+0.0926	+0.25	-0.1661	-0.45
Denmark	DKK	7.612528	-0.0009	-0.01	-0.0039	-0.05
Finland	FIM	6.074830	-0.0004	-0.01	-0.0006	-0.01
France	FRF	6.705437	+0.0002	+0.00	+0.0030	+0.04
Germany	DEM	1.998728	-0.0004	-0.02	-0.0003	-0.02
Greece	GRD	345.744718	-0.0778	-0.02	-1.7048	-0.49
Hungary	HUF	236.396667	-0.1331	-0.06	+0.2419	+0.10
Ireland	IEP	0.793928	+0.0011	+0.14	-0.0006	-0.08
Italy	ITL	1970.988312	-0.1502	-0.01	-0.3354	-0.02
Luxembourg	LUF	41.265945	+0.0155	+0.04	+0.0248	+0.06
Netherlands	NLG	2.252200	-0.0009	-0.04	-0.0004	-0.02
Norway	NOK	8.409025	+0.0088	+0.10	+0.0507	+0.61
Poland	PLN	3.847876	+0.0183	+0.48	+0.0383	+1.00
Portugal	PTE	204.677484	+0.0616	+0.03	+0.0109	+0.01
Romania	ROL	9498.205045	-35.0307	-0.37	-35.6424	-0.37
Russia	RUB	6.905369	-0.0286	-0.42	+0.0142	+0.21
Slovakia	SKK	38.314547	-0.1461	-0.38	-0.0965	-0.25
Spain	ESP	169.783557	+0.1324	+0.08	-0.0309	-0.02
Sweden	SEK	8.713986	+0.0295	+0.34	+0.1330	+1.55
Switzerland	CHF	1.663373	+0.0014	+0.08	-0.0060	-0.36
United Kingdom	GBP	0.689032	+0.0003	+0.05	-0.0011	-0.16
ECU	ECU	1.014445	-0.0006	-0.06	-0.0010	-0.10
Americas						
Brazil	BRL	1.261434	-0.0054	-0.42	-0.0076	-0.60
Canada	CAD	1.623045	-0.0048	-0.30	+0.0104	+0.65
Mexico	MXN	9.522223	-0.0318	-0.33	-0.0032	-0.03
United States	USD	1.117107	-0.0051	-0.46	-0.0082	-0.73
Pacific/Middle East/Africa						
Australia	AUD	1.798431	+0.0101	+0.56	+0.0256	+1.44
Hong Kong	HKD	8.656800	-0.0383	-0.44	-0.0635	-0.73
Japan	JPY	152.049478	+1.5926	+1.05	+2.7149	+1.82
Singapore	SGD	1.846914	+0.0054	+0.29	+0.0189	+1.03
South Africa	ZAR	5.696669	-0.0075	-0.13	+0.0000	+0.00

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends.

Synthetic Euro against the dollar

$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

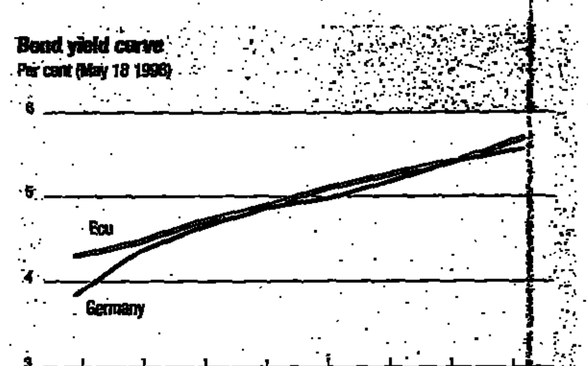
May 18	Fixed rate	Market rate	Diff bid v fxd%	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03652	7.0360	+0.02	+0.01	7.0368	3.83	+0.04
Belgium	20.6255	20.6467	+0.10	+0.02	20.6499	3.82	+0.03
France	3.35386	3.3549	+0.03	-0.03	3.3543	3.76	-0.03
Finland	3.04001	3.0593	-0.02	-0.03	3.0414	3.9	+0.11
Ireland	0.402676	0.3972	-1.36	-1.30	0.4018	5.68	+1.89
Italy	990.002	986.1117	-0.39	-0.35	991.3078	4.66	+0.87
Luxembourg	20.6255	20.6461	+0.10	+0.02	20.6499	3.82	+0.03
Netherlands	1.12674	1.1268	+0.01	+0.01	1.1268	3.79	+0.00
Portugal	102.505	102.5039	+0.00	-0.02	102.7476	4.18	+0.39
Spain	85.0722	84.9458	-0.15	-0.15	85.1876	4.25	+0.46
Germany	1		+0.00	+0.00		3.79	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward-interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve

Per cent (May 18 1998)



Source: Interactive Data/FT Information

GOVERNMENT BOND SPREADS vs ECU

May 18	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.12	-0.04	+0.04	+0.00	+0.01	-0.03
Belgium	-0.11	+0.00	+0.06	+0.03	+0.02	-0.01
Finland	-0.16	+0.02	+0.06	+0.01	-0.32	-0.58
France	-0.18	-0.07	-0.07	-0.06	-0.04	-0.11
Germany	-0.22	-0.07	-0.02	-0.13	-0.01	-0.12
Ireland	+0.58	+0.18	+0.14	+0.11	+0.13	+0.21
Italy	+0.22	+0.18	+0.17	+0.18	+0.22	+0.09
Luxembourg	-0.11	+0.00	+0.06	+0.03	+0.02	-0.01
Netherlands	-0.18	-0.05	-0.04	-0.07	-0.08	-0.12
Portugal	-0.05	+0.11	+0.08	+0.06	+0.36	+0.34
Spain	-0.03	+0.03	+0.11	+0.08	+0.19	+0.26
"OUTs"						
Denmark	+0.39	+0.29	+0.26	+0.18	+0.09	+0.15
Greece	+5.88	+4.28	+3.37	+2.80	+2.47	+2.21
Sweden	+0.42	+0.28	+0.23	+0.16	+0.12	-0.14
UK	+2.16	+1.35	+1.16	+0.82	+0.49	+0.10

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CORPORATE BONDS

May 18	Red date	Coupon	S & P Rating	Bid price	Bid yld.	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	104.630	5.14	+0.00	+0.16	+0.03
France (Rep of)	04/08	5.250	N/A	101.500	5.05	-0.01	+0.14	-0.06
Italy (Rep of)	05/08	5.000	AA	98.680	5.17	-0.02	+0.09	+0.06
Portugal (Rep of)	06/08	5.375	AA-	101.500	5.18	-0.01	+0.15	+0.07
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	100.120	4.84	-0.02	+0.29	+0.12
Gen Electric Cap Crp	10/04	5.500	AAA	102.750	4.98	-0.01	+0.18	+0.14
Oest Kontrollbank	04/08	5.250	AAA	100.430	5.19	-0.02	+0.12	+0.08
Cred Local de France	04/08	5.250	AA+	99.140	5.36	-0.02	+0.14	+0.25
Ecu Issues								
Bayer Hypo & Wech Bk	07/01	5.000	A+	100.970	4.66	+0.01	+0.19	+0.18
Cred Foncier France	03/04	8.375	A	114.440	5.41	-0.01	+0.10	+0.57
Euro Inv Bank	04/04	5.250	AAA	102.470	4.78	-0.08	+0.10	-0.06
ABN Amro Hldg. NV	04/07	6.375	AA-	106.570	5.43	-0.01	+0.10	+0.37

Source: Interactive Data/FT Information; London closing. Fungible bonds issued in tranches by Euro "in" sovereigns and fungible into one big Euro issue 1/1/99. Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

EUROZONE CREDIT SPREADS vs ECU

May 18	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/08	5.000	DEM	-0.02	+0.01	+0.06
France Telecom	AA+	11/06	6.250	FRF	+0.14	+0.21	+0.29
Halifax	AA	07/07	5.625	DEM	+0.19	+0.20	+0.29
Ing Bank NV	AA-	01/08	5.500	NLG	+0.17	+0.19	+0.27
Bayer Hypo W Bk	A+	02/02	6.750	ITL	+0.26	+0.28	+0.81
Cred Foncier	A	02/03	7.250	DEM	+0.34	+0.35	+0.48
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.31	+0.38	+0.51
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.28	+0.25	+0.57
Bank of China	BBB	07/99	7.125	DEM	+0.77	+0.70	+0.47
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+0.67	+0.67	+1.42
Korea Dev Bank	B+	11/02	5.625	FRF	+4.42	+4.30	+4.71

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

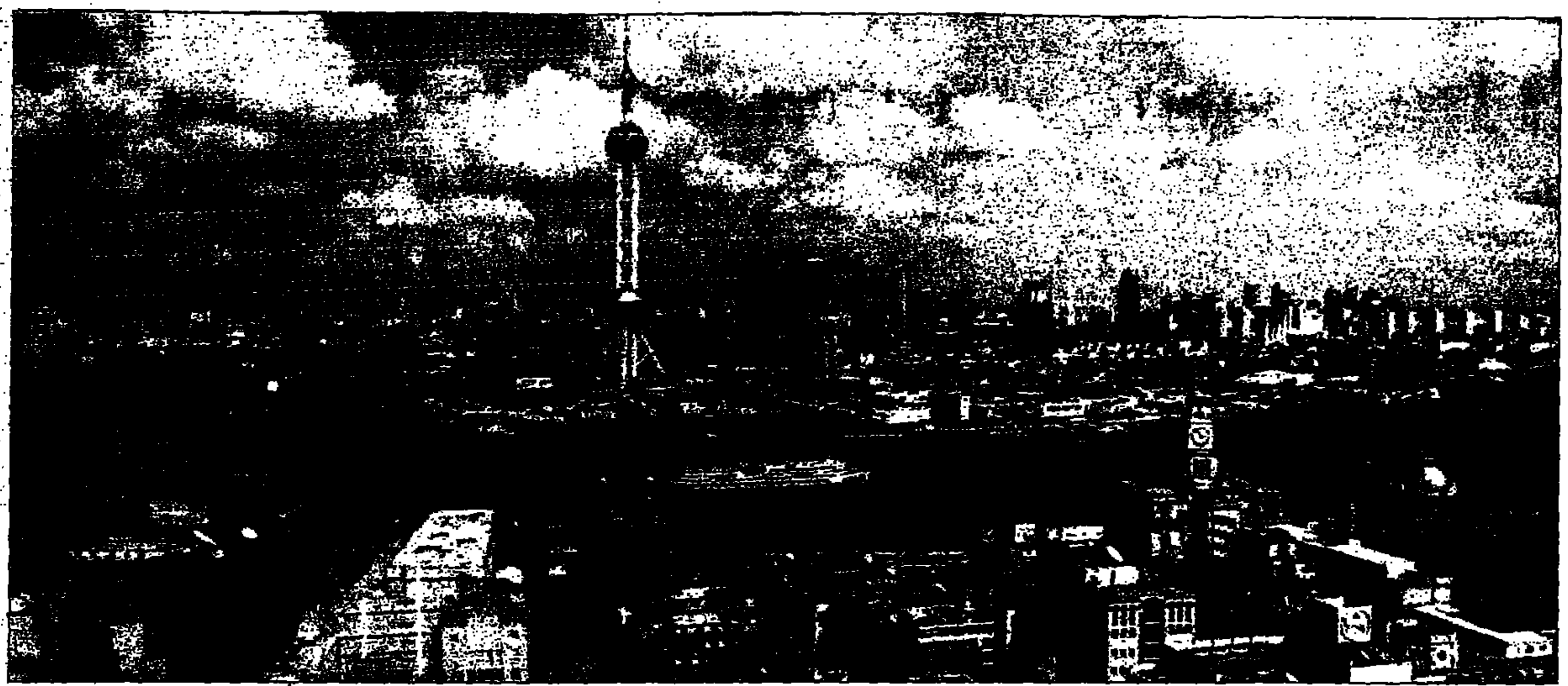
FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
Allied-Dom	9.04	-.2	9.4	16.7	4.0
Carlsberg A	58.40	-.7	2.1	0.1	0.8
Carlsberg B	57.73	-1.0	1.7	0.4	0.8
Diageo	10.73	-.2	38.3	43.8	2.5
Heineken	32	-1.3	18.0	14.0	1.0
LVMH	198.07	-4.8	16.6	1.7	1.8
AUTOMOBILES					
BMW	986.12	-33.5	19.0	0.1	1.0
Daimler Benz	95.20	-1.9	48.9	4.9	0.8
Fiat	3.96	-.2	18.5	150.4	1.6
Peugeot	188.86	-2.5	8.5	0.9	0.5
Renault	44.95	-1.7	10.8	3.1	1.2
Volkswagen	728.37	-7.3	28.9	0.7	0.8
Volvo A	27.03	-.7	3.7	0.5	2.2
Volvo B	27.25	-.6	8.3	9.0	1.0
DISTRIBUTORS					
Adidas Salomon	148.57	-4.4	6.7	0.8	0.8
Elec Comps	8.12	-	3.5	5.0	1.8
GEHE	48.20	-1.1	3.5	0.4	1.4
DIVERSIFIED INDUSTRIALS					
[illegible]	178.92	-2.2	34.1	2.8	1.3
Incentive A	78.75	-2.9	5.4	0.5	1.5
Investor B	52.31	-.4	5.9	2.3	2.2
Investor A	51.98	-.4	4.0	0.1	2.2
[illegible]	1.20	-	8.8	184.0	1.7
RWE	48.56	-	19.1	1.6	1.8
RWE Pf	38.86	-.1	7.2	0.6	2.3
Suez-Lyon de	153.57	-7.2	18.4	11.1	1.5
Tomkins	5.18	-.1	8.1	8.2	3.4
Veba	58.20	-1.2	29.2	3.6	1.8
ELECTRICITY					
Edison	7.89	-.2	4.8	11.5	1.5
Electrabel	228.18	-4.2	12.5	0.7	3.9
Endesa	21.22	+.2	22.1	22.3	1.6
Energy Group	12.32	-.1	6.4	24.8	3.1
Iberdrola	14.44	+.3	13.0	28.4	2.3
Natl Grid	5.45	-	8.0	44.4	3.9
Nat Power	8.34	-	10.2	20.7	8.2
PowerGen	11.54	-.1	7.4	11.8	4.2
Scot Power	7.97	-.2	9.6	10.4	4.8
Southern El	7.68	-	3.8	3.2	5.2
Sydkraft C	22.93	-.7	4.8	0.1	3.1
Tractebel	115.48	-.4	6.6	0.5	1.7
VEW	297.13	-.1	4.1	-	1.7
ELECTRONIC & ELECTRICAL EQPT.					
ABB A	14.39	-.2	13.5	7.8	1.7
ABB (Br)	1,462.05	-47.4	13.5	0.4	1.7
Alcatel	181.28	-1.5	31.2	5.8	0.8
Ericsson B	47.94	-1.6	46.7	28.0	0.9
GEC	7.35	-.3	20.0	45.6	3.3
Legrand	38.46	-.2	4.2	0.9	1.8
Lafarge	42.02	+.3	3.9	0.1	1.7
Legrand	252.38	+8.8	5.4	0.2	0.5
Nokia A	60.05	-.2	28.7	5.8	1.1
Nokia K	58.89	-1.7	9.2	9.4	1.1
Philips	80.11	-2.7	30.8	34.2	1.8
Schneider	73.46	-2.4	10.2	3.7	1.3
Siemens	58.81	-.6	33.1	4.8	1.3

Shanghai

The city has undergone a remarkable rebirth but, says **James Harding**, it is entering a more challenging phase of development

A grand appetite for change



Monument to ambition: Pudong. Built on former marshes on the east bank of the Huangpu river, the district now has about as much office space as central Hong Kong and half that of central London

In its short and frenetic history, Shanghai has been a city defined by ambition. From modest origins as a fishing community just 200 years ago to its renaissance as China's most dynamic commercial metropolis in the 1990s, Shanghai has fostered grand visions – dreams of wealth, western modernisation, Communist revolution and, most recently, free market renewal.

Now, it has set itself a fresh target for the next century. "The long-term objective is to be the financial, trading and economic centre of the Asia-Pacific region by 2010," says Huang Qifan, senior official of the municipal Communist Party Committee, which sets the city's strategic direction.

This may be a tall order, at least in the short time the city has set itself. The foreign currency stock market is tiny, the financial services industry is largely government-controlled and industry is struggling with a hangover from four decades of Communist central planning.

But even if it takes longer than planned, the city's rise as an international commercial centre promises to change the landscape of Asian business.

Shanghai's bid to regain its past glory as Asia's commercial capital will matter to more than just the city's 13m residents and the 16,000 foreign companies that have poured in time and money: it promises to propel China into new realms of economic reform, recasting the relationship between government and enterprise as well as throwing open the Chinese market to international investors.

Ambitions have been emboldened by the city's remarkable rebirth since the central government sanctioned rapid reform and development in 1992. In the past five years, Shanghai's economy has more than doubled in size. A frenzy of construction has spawned as much new office space as in central Hong Kong.

There has been a revolution in both consumerism and communications (the number of mobile phone users will top 1m this year). Roughly one third of the city's residents now own shares on the stock market. And a tidal wave of foreign capital has given Shanghai the highest level of international direct investment of any city in the world.

The prosperity has given Shanghai a facelift. A thicket of skyscrapers has sprouted in Pudong – the former marshes on the east bank of the Huangpu river that are being developed into a financial district – and a magnificent new museum, a vast municipal library and a gleaming new opera house are all signs of a city bursting with life.

However, realising the vision of becoming a world-class hub for international financial and commercial services will take more than the inflows of foreign money and domestic fixed asset investment that have driven growth in the 1990s. The city is entering a more challenging phase of development.

Shanghai will have to restructure its economy, substituting for the rusting blue-collar state factories of the central planning era a new generation of independent white-collar businesses that can hold their own against international competition.

In turn, the development of the service sector will mean strengthening the foundations of a free market: the rule of law, independently regulated financial markets and an open, competitive business environment.

Asia's financial crisis has demonstrated the urgency of that challenge in two ways.

First, the humbling of financial centres across Asia has offered a cautionary tale to China's would-be Wall Street. Shanghai stood apart from the turmoil last year, thanks chiefly to China's tight restrictions on foreign exchange. However, says Zhou Yupeng, the vice-mayor, it brought home the need for reform: "In the light of the problems that have emerged from the Asian crisis, we are trying to improve the environment for investors. We have improved the hardware – the infrastructure of the city – we need to improve the software."

Second, the knock-on effects of troubled Asian neighbours have exposed weaknesses in Shanghai's economy. As the fall-out of the regional crisis has coincided with lacklustre domestic demand, GDP growth has slipped to its most pedestrian pace in years – 8 per cent in the first quarter of 1998, well below the average 14 per cent rate in the past five years and the target for the year of 10 per cent.

The economic slowdown has brought weaknesses to the fore – in particular, concerns about efficiency and unemployment.

> *"The story of this city's rapid development from mud-flats to skyscrapers and of the extraordinary personalities who had devoted their energies to it and were still making fortunes in this clammy heat would be very like a saga. Its symbol should be the cicada, of whom a Chinese poet wrote in the 11th century:*
>
> *Are you not he, cicada,*
> *Of whom I have heard told you could transform*
> *Your body, magically moulding it*
> *To new estate? Are you not he who, born,*
> *Upon the dung-heap, coveted the sky,*
> *The clean and open air?"*
>
> Harold Acton on Shanghai from *Memoirs of an Aesthete*, 1948

About $116bn worth of foreign and domestic investment drove growth between 1992 and 1997, but it camouflaged modest increases in productivity and slow progress in dealing with duplication of industries, ownership reform and the bloated state sector workforce.

The mammoth property glut in Shanghai is a monumental demonstration of the problem: over-investment in office blocks without the equivalent rise in profitable businesses to fill them.

Unemployment has become as much a feature of Shanghai as the famous construction cranes that sprouted across the city in the 1990s. Official figures consistently underestimate the problem, suggesting Shanghai's jobless are only 7 per cent of the workforce. Many economists suggest the real rate could be double that.

Shanghai's tightrope trick, therefore, is to maintain social order, while pressing ahead with the next stage of reforms. In the short term, the government is peddling a number of measures to reflate the economy. But, in the longer term it will have to push ahead with deep changes on three broad fronts.

First, China will have to give greater play to private enterprise and greater rein to the financial markets.

As Wu Xiuyi, vice-chairman of the municipal government's Development Research Centre, acknowledges, ownership can promote efficiency: "Collectives have a better rate of profitability than state-owned enterprises and privately-owned ventures have a better return than collectives." But, he says there will be no rush into privatisation: "The question still is how much the state should own."

Similarly, the fledgling markets are in limbo. Established to anchor the city's hopes of becoming a financial centre, the markets have been kept on a tight leash by the central government, leaving the sense that Shanghai continues to live in Beijing's shadow. Wang Yuchun, president of Shenyin Wanguo, China's largest brokerage house, says he would like the markets watchdog moved from the capital to Shanghai. "But, Beijing is still both the political and economic capital of China," he says.

The second prerequisite to Shanghai's development as an international financial centre is liberalisation of both exchange rates and markets. "Until China has a convertible currency, the country cannot have an international financial centre," says Brewer Stone, head of Prudential Securities in Shanghai.

Shanghai has started to open its financial services industry to foreign companies that are able to inject competition into the dozy arm of the domestic industry. But, it has been a modest beginning.

Thirdly, the government must relax controls on the media and freedom of expression if it is to foster a culture that nourishes those high margin sectors of developed economies that thrive on innovation and imagination: information technology, television, music and film and leisure.

These reforms will require the government to give way. Economic restructuring does not necessarily pose a direct challenge to Communist Party rule in China's largest city, but it does threaten to make it increasingly marginal. A more liberalised economy may yet raise the awkward question of electoral reform in Shanghai.

For now, the government brooks no discussion of direct mayoral or municipal elections: "Direct elections in a country as big as China would never have any beneficial result," says Mr Huang at the Party Committee.

But, in Shanghai, nothing should be ruled out. The city has grand ambitions – ambitions that surely can be achieved with time and an equally grand appetite for change.

ECONOMY • by James Harding

The Asian sniffles settle in

Bold decisions must be taken at a difficult time to ensure continued growth

As neighbouring financial centres succumbed to the Asian 'flu last year, Shanghai seemed to be in good health. The city's exporting manufacturers achieved record overseas sales, retail sales reached a new peak, unprecedented foreign investments were unveiled and Shanghai's domestic stock market was the best performing bourse in Asia.

But such glorious isolation *has not lasted long* and, in the first few months of 1998, the signs from Shanghai are that Asian sniffles are setting in. The economy has started decelerating sharply as export growth has *shrunk, foreign* direct investment has slowed and weak consumer demand and chronic industrial oversupply have conspired to depress prices and squeeze corporate margins.

The slowdown has repercussions beyond the city limits. Troubles felt in Shanghai, China's largest city and most internationally integrated local economy, tend to percolate through the rest of the country.

In the longer term, the success of its transition from the state-regimented industrial *hub of a centrally* planned economy to a commercial and financial services centre serving a free domestic and international *market will be a critical test* of China's reform process.

Looking at the 1990s orgy of new building (fables of Shanghai being home to one fifth of the world's tall cranes were, for a while, true), shop openings and fresh business start-ups, the *economic activity has been* staggering.

Much has changed in a short time. Shanghai's economy was kept on a short leash by the central government until 1992, when Deng Xiaoping, China's late leader, visited the city and sanctioned the economic development and liberalisation of the country's long-muzzled business centre. Since then, Shanghai has *one of the fastest growing* cities in the world.

Over the past five years, GDP growth has skipped along at an average rate of nearly 14 per cent. Foreign trade has helped fuel the growth – the city's exports grew to $14.7bn last year by comparison with $6.5bn five years earlier. Consumer appetites have grown too, tripling retail sales in the last five years. Much of the *expansion in the economy* has been fuelled by investment, particularly inflows of foreign capital which have *amounted to $28.46bn since* 1992 coupled with RMB733bn in domestic fixed asset investment.

But, Shanghai has entered *a difficult phase.* For the first time in more than five *years, quarterly growth in* the first three months of this year slipped into single figures, as Shanghai's GDP rose just 8 per cent. The number of foreign investment projects has fallen 46.7 *per cent compared* with the first quarter of 1997.

Judging by the 88 per cent fall in orders for Shanghai-made goods from South Korea at the East China Trade Fair in March, for example, the unravelling of nearby Asian economies is *set to take its toll* on Shanghai's exporters.

But, the Asian crisis is only partly to blame. Problems in the Shanghai economy are largely homegrown – as will be the solutions.

Deflation has been the clearest signal of the weaknesses in the domestic economy – the city's retail price index slipped 6.2 per cent last year. *Half of the problem* is slackening consumer demand, as most Shanghainese bought household electrical goods between 1992 and 1995 and their incomes have not risen sufficiently to *whet appetites for higher* quality or new goods.

The other half is oversupply. State industries overlap and *China's managers* still tend to focus on raising output rather than profits. Concentrating on the top line, at the expense of the bottom line, is a legacy of socialist management. But, Shanghai *has added to the problems of* oversupply by fostering a copycat business culture. In the early 1990s, the first amusement parks in Shanghai had healthy margins; now, most of the city's 97 *theme parks are empty.*

Nothing exemplifies the copycat problems of the Shanghainese economy better than the property market. A bottleneck in supply in 1993/94 prompted a rash of new construction, which has delivered roughly 4m sq m *more office space in Pudong* alone. Vacancy rates are now among the highest in the world.

Shanghai's government knows it must reignite its economy. It has pledged to *open the purse strings on* infrastructure spending and industrial lending. "Accelerated capital construction is essential to maintaining *Shanghai's development momentum,*" says Xu Kuangdi, the city's mayor. Shanghai aims to achieve 10 per cent growth in 1998.

It also hopes to spur consumer demand by encouraging *home ownership* and the consumption of household equipment that goes with it. Already more than 100,000 people in Shanghai have taken out mortgages and the city plans roughly to double the amount of money available for residential property lending this year.

But longer-term remedies *for Shanghai's economy* require fundamental adjustments to *the structure of the* city's economy.

Oversupply requires the dismantling of state-owned enterprises. By the cautious *standards* of China's cities, Shanghai has been bold in allowing nearly *100 companies* to go bankrupt since 1994. But, with more than 3m employees in the state sector, the process of closing down even the most moribund factories is delicate.

Creating new jobs is a priority and the development of the city's white collar industries, therefore, is essential. So far, the restructuring of the economy has been swift, but not swift enough to *absorb the new jobseekers.* The tertiary sector as a proportion of *GDP* has grown from 35.9 per cent in 1992 to 45.5 per cent last year.

Shanghai's development, therefore, will hinge on the *the government's ability to* take bold, liberalising decisions at a tough time. But, to maintain growth, draw more foreign investment and soak *up the state sector's* unemployed, the authorities have little choice.

The city of cyclists and colonial architecture now has an opera house, a museum and Pudong, one of the world's largest urban developments

Lu Sha (above), FT (below)

FINANCIAL MARKETS • by John Ridding

In search of former fortunes

The city is gaining momentum in its development as a financial centre

The grandiose façades of Shanghai's famous Bund once fronted finance houses that dominated Asia. Across the Huangpu river, the glass *and steel structures of the* fledgling Pudong business district mark a bid to regain that position.

The grandiose façades of Shanghai's famous Bund once fronted finance houses that dominated Asia

Sarah Murray

"We aim to build Shanghai into an international financial centre just the way it *was in the 1920s and 1930s,*" says Mao Yingliang, president of the People's Bank of China (PBOC) in the city. "We can combine the Bund area of the 1990s and the Lujiazui [the financial area *of Pudong*] to build that financial centre."

A series of obstacles lie in the way of this objective, as well as a sharpening regional rivalry. From Singapore to Sydney, governments *are seeking a greater slice of* markets and financial institutions. The crises racking the region have not diminished their ambitions, but prompted instead a burst of deregulation.

Shanghai's history counts for little in this contest. And it faces obvious handicaps, not least the non-convertibility of the Chinese currency.

But *the pace of development* of the past five years has been striking, and momentum is building. "You will still find a long list of *restrictions for foreign* institutions," says a senior executive at one of Hong Kong's biggest bank. "What you won't find are many bankers who will bet against Shanghai." Such sentiment is supported by the growth of institutions and markets. The total assets of Shanghai's financial institutions now exceed RMB1 trillion. Between 1990 and the end of last year the volume of deposits rose seven-fold to RMB620bn while loans totalled RMB420bn.

The capitalisation of Shanghai's A-share market, reserved for local investors, has risen to RMB1,072bn while the B-share market *stands at RMB17.9bn.* Shenzhen, its rival in southern Guangdong province, is snapping at Shanghai's heels but lacks the critical mass of *industry and banking.*

Foreigners have their foot in the door. Since the city launched liberalisation policies in the early *1990s it has* licensed 52 foreign financial institutions from 17 countries. More than 160 foreign institutions have representative offices, far higher than in any other Chinese city.

Foreign banks hold assets worth $17.6bn and last year nine were permitted to launch local currency business. Others are set to follow. The insurance sector has also been opened, with AIG of the US quickly capturing 5 per cent of a life assurance market which has grown to about RMB6bn in terms of premiums.

More important is the shift in attitude behind these statistics. "In the 1980s Shanghai was phenomenally bureaucratic and it had the *reputation of one of the* hardest places to do business in Asia," says William Hanbury Tenison, chief representative of Jardine Fleming Securities in Shanghai. "Now it is one of the most open cities for business."

While liberalisation has occasionally ruffled feathers – for instance, the speed with which AIG secured a big share of the insurance market – the process seems set to continue. "If foreign companies enter the market we will learn from their *technology* and methods," says Zhu Qing, general manager of the Shanghai branch of China Pacific Insurance.

"We want to see more and more *multinationals and* international institutions establishing in Shanghai," says Mr Mao of the PBOC. "Foreign financial institu*tions have been an impor*tant force in the development of Shanghai's financial system."

If the direction is set, how*ever, Shanghai's step-by-step* strategy dictates a gradual pace. Liberalisation could become even more cautious *in the wake of the turmoil* sweeping the region's financial markets. Given that upheaval, a conservative stance may appear prudent, but will do little to close the gap on regional rivals.

Officials *admit that,* despite rapid development of the financial markets, there is a long way to go. "The gap between Shanghai's standards and international standards is still very wide," says Wu Xiuyi, vice-chairman of the development research centre at the city's municipal government.

Measures are being taken *to bolster Shanghai's standing.* Apart from moves towards liberalisation, authorities are strengthening regulation and market *structures.* Under a recent restructuring, for instance, the China Securities *Regulatory* Commission will take sole responsibility for regulation. In the past the CSRC was responsible for market *regulation* and the *PBOC* for appointing top officials.

Mutual funds have been launched as part of moves to develop institutional investment. *The A and B share* markets are under review with a view to legitimising some mainland Chinese participation in the market for foreigners. *Local* securities companies are being pressed to consolidate.

Such reforms will improve the efficiency of Shanghai's *markets. Much will also* depend on the resilience of regional economies. But perhaps most important in maintaining the city's *momentum as an emerging* financial centre is that the direction of deregulation is upheld. As Mr Mao puts it: "Financial centres are *formed* by markets, *not* by aims or intentions."

INFRASTRUCTURE • by James Harding

Getting a crowded city moving

As traffic jams decrease a new bottleneck is developing in telephone use

Mrs Liu, a retired factory *worker, sits in her new* apartment beneath the flight path into Shanghai's Hongqiao Airport and shrugs. "I've grown quite accustomed to the noise," she says. A little discomfort has been the *price of development* for more than 1m of *Shanghai's residents,* who have been relocated from downtown homes to new apartments in the suburbs as the government has cleared space for commercial projects and bulldozed old housing areas to make way for a network of ele*vated expressways,* underground system as well as tunnels, bridges and telecommunications lines.

Upgrading the city's infrastructure, has been an imperative for Shanghai in *the 1990s. Bottlenecks in the* largely single-lane network meant that, as road traffic multiplied, gridlock set in and a trip across town could easily turn into a two-hour journey.

Zhou Yupeng, Shanghai's vice-mayor, remembers the aggravation in the city five years ago: "We saw traffic jams all over the place and each one could easily last well over one hour.

"One newspaper even suggested that if anybody could solve this critical issue, the city should erect a *statue in their honour.*"

In an effort to deal with the problem, municipal spending on transport infrastructure rose from RMB716m in 1990 to RMB14.7bn in 1996. Still, *the growth in spending still* lags behind the exponential growth in road traffic and passenger traffic, as measured in person-kilometres, which has multiplied tenfold in the past 20 years.

Today Mr Zhou believes the traffic problem has been "*basically solved*". The government's ambitious infrastructure programme has created a system of internal flyovers and an extensive ringroad network to ease congestion. Today, it can take less than half an hour to get across town and, *although traffic jams are* frequent, they are not an inevitable feature of travelling by car. More projects are now getting under way.

In the process the construction of a new infra*structure skeleton* has recast the shape and logic of the city. *Most significantly,* the projects have been designed to integrate Puxi, the old heart of Shanghai on the west bank of the city's Huangpu River, with Pudong, the east bank of the river *that is being developed* into a modern business hub.

For example, a second subway line is being built running 13.6km from the centre of downtown Shanghai right through Pudong.

Shanghai has also started work on a new international *airport which will require* investment of RMB12bn and should have the capacity for 20m passengers a year. It is being built in Pudong.

Meanwhile, the city's information networks are *struggling to keep up with* demand. The number of mobile phone users is set to grow by 400,000 this year, reaching more than 1.1m by the end of 1998.

Similarly, standard telephone users *will grow* by 550,000 to 4.3m this year, making 12.6bn phone calls, 17 per cent up on 1997. And, with internet use growing at an estimated 120 per cent a year, the new bottlenecks are emerging in telecommunications.

PROPERTY • by John Ridding

Developers start to feel the pain

A soaring supply of space has weakened the foundations of the market

"If you build it, they will come," was the message from the sky in the film *"Field of Dreams". But for* Shanghai's Pudong business district – one of the world's biggest developments – there seems no guarantee that they will.

"The building boom that was very much in *evidence in 1997 is giving way to a rash of completed* but vacant buildings," says Morgan Stanley, the US investment bank. "Most are conspicuously lacking in human activity – a ghost city of concrete and glass."

This spells pain for the developers behind the grandiose buildings of Pudong and Shanghai's other commercial districts. But it is a heavier blow still to Shanghai's pride and its ambition *to establish an international* financial centre, hinged partly on Pudong's success.

Handling the fall-out will test China's commitment to market-based strategies, while the collapsing economies *of south-east Asia* demonstrate the dangers of bursting property bubbles.

Most believe Shanghai will escape such a fate and that Pudong will secure its position as one of the region's top business centres. But they also foresee a rough ride over the next few years.

This much is clear from the figures. The 500,000 sq m of office space at the end of 1994 has climbed to about 3.5m sq m now, with another 1m expected by 2001. Vacancy rates have soared, reaching an estimated 70 per cent in Pudong. "These rates are unheard of in the west," says Guy Fulton, general manager of First Pacific Davies in Shanghai.

Rents have borne the brunt of the glut, more than halving since the peak in 1994/95. Sales prices have fallen less, but largely because developers are reluc*tant to sell into a* moribund market. Nor is there sign of respite. "Prices weakened significantly last year and we expect price wars to ensure," says Crédit Lyonnais Securities Asia.

This is bound to lead to casualties. Some developers *have* scaled back their projects. Thailand's CP group has more than halved the size of a planned shopping mall and Daewoo is among Korean *groups seeking to* delay their investment.

The sheer scale of supply and the backdrop of Asia's property woes should set alarm bells ringing. But Shanghai's real estate sector is not a uniform picture of gloom. "The higher quality *buildings and the main* locations are holding up much better," says Mr Fulton.

Other property analysts note some relief for developers in the market *for middle*-market residential schemes. "*They are going like hot* cakes," says Edward Cheung, general manager at C.Y. Leung & Co, *referring* to a couple of recent schemes aimed at Shanghai's emerging middle class.

Pudong also offers several causes *for encouragement.* Jiang Jian Qing, presdient of ICBC in Shanghai, the city's largest bank, cites the dynamism of Shanghai and the fact that much of the *money* behind the real estate boom came from foreign investors.

The continued arrival of multinationals and the expansion of existing operations contrasts with the region. Kodak's announcement of an investment plan was the latest confirmation that many multinationals view Shanghai as the best base in China, and possibly for the region.

While exact figures are scarce, foreign developers, notably the big Hong Kong companies, have been ambitiously expanding. These companies tend to have robust balance sheets, and can endure a period of low rents and opportunity costs *without being forced into a* fire sale.

In Pudong, many developments are funded by state institutions such as Moftec, the ministry of foreign trade and co-operation and eco*nomic co-operation.* Several big banks, such as ICBC, are also shifting their headquarters to a new building they own in the district. Foreign banks seeking to conduct local currency business are *required to take at least* 1,000 sq m of space.

These measures provide support in the short term. But more important considerations are Shanghai's commitment to the district and the *infrastructure being* put in place. A new airport is due to open in 2000, while a second underground rail line, connecting Pudong to *the network, is to be* launched next year.

Many believe Shanghai's bold bet will pay off. "Pudong will in 10 years be *the pre-eminent financial* centre in China," says Morgan Stanley. "In 20 years it could possibly rival Tokyo as the region's premier finan*cial centre. "But in the* meantime, China's developers are learning the lesson of the cyclicality of property markets, with a vengeance."

CENTRAL GOVERNMENT • by James Kynge

Not such capital relations

The long-held rivalry between Beijing and Shanghai remains intense

Popular Chinese stereotype paints Shanghainese as clever, with a capacity to master detail and a delight in outsmarting their slower *compatriots in Beijing.*

The rivalry existing for most of this century between Beijing and Shanghai finds several forms of expression. As well as the popular prejudices, frustration derives from a *central tension:* that while politics in China is linked to business, Shanghai will under-achieve.

The late Deng Xiaoping, *architect of China's free* market reforms hinted at Shanghai's disadvantaged treatment. "The people of Shanghai are clever and accomplished," he said in 1991. "If we had made the *city a special economic zone* in the past, it would better than it is now."

Since then Shanghai has been awarded a special economic zone in the Pudong area, but some analysts *believe the city's development* as China's financial centre remains compromised by a lack of operational autonomy from Beijing.

An umbrella law safeguarding the industry's interests has been stalled in Beijing's legislative process for years. It may be passed this year but meanwhile, the stock market remains *beholden to fiats* emanating from the capital.

With the head offices of both the China Securities Regulatory Commission, the *top securities watchdog,* and People's Bank of China, the central bank, in Beijing, officials overseeing what may one day be Asia's financial centre *are constantly* seeking direction from an outside *source. This would not* necessarily be a burden in a country where the rule of law is absolute but in China, where the Communist Party's power is paramount, such a relationship could *hamper the development of* transparent capital markets.

"Beijing has responsibility over Shanghai, especially with reference to the banking *system and market* liberalisation, but in some areas, there should be more say in local government," says Wu Xiuyi, vice-chairman of the *Development Research Centre* of the Shanghai Municipal Government.

The aims of China's policy-makers can conflict with the *interests of financial* markets in Shanghai and Shenzhen, in the south. While the free market principle dictates that capital should *gravitate toward companies* most deserving of it, provincial authorities are encouraged to allocate their strict *listing quotas to state-owned* enterprises needing capital infusions to reform but that are not necessarily efficient.

This means private firms, which from a market viewpoint may be more deserv*ing, are often denied* the chance to list. "Within three years, state-owned enterprises have to throw off their current dilemma and the securities *markets have to* serve this policy," says Chen Yaoxian, vice-chairman of the CSRC in Beijing.

But the time spent serving *macro-economic imperatives* may be time lost to regional competitors that also hanker to be Asia's financial hub. "Cities such as Singapore *and Hong Kong* are trying to speed up their liberalisation and this creates a new challenge for us," says Mao Yingliang, president of the *People's Bank of China.*

In other areas, Shanghai may be seen as losing out. In terms of industries such as computers, *software, internet* design, Beijing is China's undisputed lodestar. Anecdotal evidence suggests that close links to government – a key customer and regulator of knowledge-based businesses – *is vital.*

An intellectual axis now exists between Beijing government think-tanks, the famous Peking and Qinghua universities *and a "silicon valley"* area known as Zhongguancun, where many foreign computer companies have invested in research centres.

But foreigners have not ignored Shanghai, partly because of the city's strong telecoms sector. "Computer companies have representative offices here and, what is more significant, they are establishing R&D centres in Shanghai," says Zhu Xiaoming, chairman of Shanghai Foreign Economic Relations and Trade Commission.

BANKING • by James Harding

Arriving in a trickle

Foreign banks have plenty of strings attached and little scope for operations

China "has been very good at using foreign banks as a prod for the Chinese banks", says Chris Tibbs, head of corporate finance at Citibank in Shanghai, observing how cash-dispensing machines have appeared across the city since Citibank was allowed to install one on the waterfront.

"We wanted it [on the Bund] to test communication systems," he explains. "The PBOC [People's Bank of China, the central bank] wanted it in here to run round to the Chinese banks and say, 'Look out, here they come!'"

So far, though, foreign financial institutions have trickled rather than flooded into Shanghai, China's testing ground for financial liberalisation. And their capacity to act as a catalyst for the reform of China's bloated domestic banks and insurance companies helps to explain the government's slow and cautious approach.

As far as the foreign firms that have waited long and lobbied hard to enter the Chinese market are concerned, operating licences have come with plenty of strings attached and little scope to do business.

In the banking sector, nine foreign financial institutions have been admitted to do local currency business. They are Citibank, Hongkong Shanghai Bank, Bank of Tokyo-Mitsubishi, Dai-ichi Kangyo Bank, Industrial Bank of Japan, International Bank of Paris and Shanghai, Sanwa Bank, Standard Chartered Bank and Banque Indosuez. They have all been required to establish branches in Pudong, the city's infant business district. A further 11 banks are expected to get licences to do banking business in renminbi, the Chinese currency, this year.

But they are entering a paltry market. By the end of March the nine licensed banks reported RMB assets worth $110m, according to a central bank official. Overall, the central bank calculates that foreign banks in Shanghai hold assets worth $17.6bn, but because the RMB banks are restricted to lending primarily from their tiny local deposits the local currency loan business is strikingly small.

Insurance companies, too, have had to make sacrifices to enter the market. The lobbying process for a licence has tended to be long, costly and political.

Once admitted to the Chinese market, foreign life insurers have generally been required to team up in a joint venture with a local partner. With the exception of American International Group, which secured the right to set up wholly owned life and general insurance businesses as early as 1992, foreign insurers have so far seen little reward from the promising insurance market.

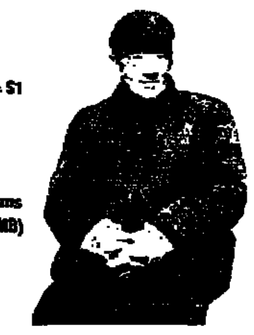
Mao Yingliang, president of the central bank in Shanghai, suggests that foreign financiers and insurers must be patient. Shanghai will open its markets to foreign competition, but only in line with what domestic institutions can sustain.

"Foreign financial institutions have been an important force in the development of Shanghai's financial system, bringing capital expenditure, expertise and technical know-how," he says. "We want to see more and more, but we cannot open the market overnight."

Consuming ambitions

Year	GDP (billion RMB)	Actual used foreign capital (billion US dollars)
1993	1511.61	3.175
1994	1971.92	3.895
1995	2462.57	5.298
1996	2902.20	7.510
1997	3360.21	6.345

Exchange Rate: RMB 8.28 = $1



Year	Total population
1997	13.07million

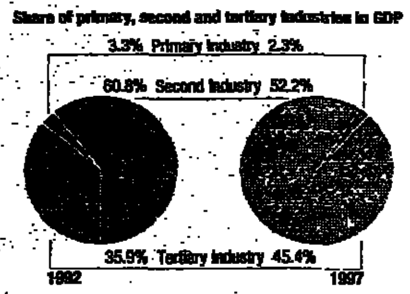
Year	Insurance premiums income (billion RMB)
1993	1.45
1994	2.12
1995	2.57
1996	5.24

Year	Colour TV sets (per 100 households)	Air conditioners (per 100 households)	McDonald's
1993	94	5	0
1994	101	20	2
1995	109	33	6
1996	113	50	16
1997			23

Year	Prime time TV ad price
1993	$US2,340 / 30 seconds
1997	$US4,820 / 30 seconds

Year	Passengers departing by air (million person-times)
1993	3.92
1994	4.58
1995	5.67
1996	6.22
1997	6.73

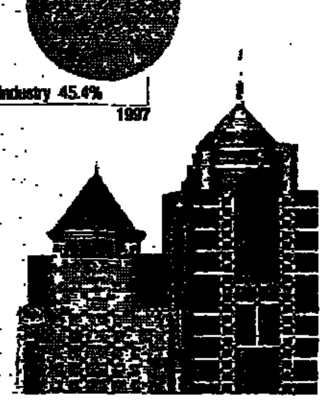
Share of primary, second and tertiary industries in GDP



Year	Average annual wage (RMB)	Divorce (couples)
1993	5,650	18,615
1994	7,401	20,075
1995	9,279	21,900
1996	10,663	24,820
1997	11,418	

Year	Floor space of urban office buildings (million sq m)
1980	3.36
1990	5.90
1996	11.27

Year	Bowling Alleys
1993	100
1997	2,050



Year	Mobile phones
1992	10,000
1993	-
1994	73,000
1995	168,000
1996	361,000
1997	750,000

Source: FT; China Statistical Yearbook; Shanghai Municipal Government; Shanghai Economy Yearbook

THE STOCK MARKET • by James Harding

First steps on the ladder

The exchange has come a long way but there is still much to do

Shanghai's hopes of becoming a world-class financial centre rest, in large part, on its stock market. A transparent, liquid, self-regulating exchange would require the development of a competitive financial services industry and foster a new generation of brokers, accountants, lawyers and fund managers. Thus the opacity, illiquidity and state intervention characterising the infant bourse say much about how far Shanghai has to go.

The city's exchange has developed quickly. Born in 1990 as an experiment in capital raising for China's state-owned enterprises and a tentative step towards diversification of ownership, Shanghai's foreign currency and domestic bourses have grown into a combined market worth about $135bn.

As Asian markets crumpled last year, Chinese bourses more than weathered the storm. Shanghai's A share index, which tracks shares denominated in local currency and reserved exclusively for mainland Chinese investors, rose 32 per cent in 1997 and further since. China's A share markets were the best performers in Asia last year.

For foreign investors though, it has been a different story. As a function of China's restrictions on foreign exchange, Shanghai's markets are segregated: the A share markets for local investors are large and liquid, while the B share market, where stocks are sold in US dollars and reserved, in theory, for foreign investors, is small and stolid.

The B share capitalisation is RMB16bn, less than 2 per cent of the RMB1,112bn A share market and about the same size as Sri Lanka's stock exchange. Brokers in Shanghai say the quality of companies listed on the B market reinforces the sense that the foreign investor bourse is, to put it mildly, second best.

Shanghai is not the only stock market. The exchange in Shenzhen, the capitalist crucible in southern China bordering Hong Kong, has proved more flexible in winning new issues in the past few years than the flat-footed Shanghai exchange.

In the short term, foreign investors need an improvement in the quality of companies listing on the B share markets to make investing worth while. But, for Shanghai to sustain the interest of global investors, the markets need structural changes.

Liquidity will come with the merger of the A and B markets. When the renminbi becomes fully convertible (a longer-term proposition since the Asian currency crisis) the logic of market segregation will evaporate.

Transparency may take longer – corporate culture in China is only just emerging from the days of 'socialist accounting' and institutional investment is in its infancy, with the launch of the first mutual funds this year.

The role of government will be critical. In the past year, Beijing has feted the stock markets in theory, more than practice. China's leadership is determined to control the stock market to fund economic transition, while preventing any instability that could come from a volatile market.

A securities law, has been talked about for five years, but not passed. Shareholder rights are barely understood, much less enforced. And the emergence of a derivatives markets was squashed by the authorities after an embarrassing bond trading scandal in Shanghai in 1995.

EMPLOYMENT • by James Harding

Hard times for state workers

Despite rising unemployment there is a growing shortage of skilled labour

After 25 years working at the Shanghai No.12 Radio Factory, Chen Xiuying has been laid off. "There simply was not enough work for people to do," she says, explaining the rounds of blood-letting that have continued at the large state-owned enterprise. "The company had not been able to keep up with the changes in society. There had to be lay-offs."

Mrs Chen is not alone. Between 1992 and 1996, roughly 1.3m people were made redundant in Shanghai, sent home from their former employers with the standard subsistence package for laid-off workers of about RMB180-225 a month.

In the coming years the rigours of a freer market, exacerbated by a slowing economy and the after-shocks of the Asian economic crisis, are likely to add to the strains on Shanghai's outdated state enterprises and swell the ranks of the unemployed.

The official assessment of the problem, not surprisingly, is sanguine. Shanghai's statisticians conveniently calculate the city's unemployment rate at 2.8 per cent, comfortably below the national ceiling on unemployment set by the macroeconomic planners in Beijing.

When the lay-offs from the state sector – categorised as *xiagang*, those who have "stepped down from their posts" – are included, the jobless rate is 7 per cent.

Even that may underestimate the number of people not working. Underemployment is endemic. Many of the unemployed, particularly the women who have borne the brunt of the restructuring, do not register. The real rate of unemployment may well be more than 15 per cent of the workforce.

Such a mass of unemployed and the widening income gap might spell rumbling social discontent in Shanghai. But so far the repercussions have been more complex. For some, redundancy has meant hardship and a new reliance on government welfare, while many others have fallen into the range of new occupations and informal jobs that are cropping up in a rapidly changing economy.

For now, unemployment has not prompted waves of anti-government protest – in fact, public dissent has been small-scale and sporadic – but rather eroded the state's authority as the city's predominant employer. About 68 per cent of the workforce are in state-owned enterprises, but that number is falling fast.

The irony is that at the top end of the employment spectrum there are not enough qualified workers. Competition for high-skilled employees is fierce and salaries have been rising by more than 10 per cent per year in white collar industries. But such jobs are still rare and too often unsuited to the people coming out of half a lifetime's employment in the state sector.

Mrs Chen, at least, has profited from redundancy. She took a job doing door-to-door sales of German vacuum cleaners and has discovered a natural talent. In a really good month, she can earn RMB10,000, she says, more than 10 times her old salary.

But she admits: "I have been lucky."

ENVIRONMENT • by James Harding

Something in the air...

Rapid growth has brought its own problems in the shape of pollution

In the 1990s, the only thing that has made a more striking dent on Shanghai's skyline than the scores of shiny new office blocks has been the pall of industrial pollution that hangs over the city. Palpable damage to the local environment has accompanied the rapid economic growth.

The number of cars in Shanghai has almost doubled from 1992 to reach 520,000 vehicles in 1997, adding to the city's fleet of half a million mopeds. The air quality has inevitably suffered.

The government calculates that only 70 per cent of vehicles comply with China's own emission standards, calculating that carbon monoxide exhaust is well above acceptable levels.

Industrial waste gas emissions are up 34.5 per cent from 1990 and widespread use of coal in Shanghai's houses has heaped smoke and dust as well as industrial dust on Shanghai's substantial sulphur dioxide output.

The implications of the pollution are disturbing. The amount of lead in the bloodstream of Shanghainese children averages 80 per cent higher than that considered safe for normal mental health development, according to a recent study by the World Bank. The levels of total suspended particles and sulphur dioxide in urban China are between double and five times as high as World Health Organisation guidelines.

But the city's environment protection bureau says the air and water quality, although well below acceptable standards, is improving. They may be right.

Total suspended particulates in the air in Shanghai in 1996 were measured at 0.229mg per cu m and sulphur dioxide emissions, having grown in the early 1990s, were held in check at 0.032mg per cu m in 1996. The government has limited the use of mopeds and introduced lead-free petrol. The municipal authorities have also pledged to raise environmental spending from 2.2 per cent of GDP in the first five years of the 1990s to 3 per cent in the second half of the decade.

The latest figures on waste water discharge, for example, show industrial effluent released in 1996 was 1.14bn tonnes, 1.8 per cent lower than the previous year. Having said that, treated industrial effluent – in a city where the thoroughness of treatment varies considerably – rose 13.8 per cent to 1.42bn tonnes.

Shanghai has set the clean-up operation of the Suzhou Creek, the repository of most of the city's effluent and arguably one of the filthiest rivers in the world, as a measure of its commitment to environmental protection.

It is again a measure of the ambitions that the authorities do not want just to clean up Suzhou Creek, they want to turn it into Shanghai's *'Rive Gauche'*.

RETAILING • by James Harding

Bitten by the consumer culture

Shoppers want the latest items the minute they have appeared in New York

To many Chinese, Shanghai is synonymous with shopping.

Before the Communist takeover of China in 1949, Shanghai's boutiques and department stores sought to rival the shops of London, Paris and New York.

Even in the monochrome days of the Mao economy, the Nanjing Road that runs through the centre of the city was China's most bustling high street. And, in the 1990s, economic liberalisation has fostered a breathless consumer revival.

While average annual incomes have doubled, retail sales have almost tripled. The sales of consumer goods have risen from RMB46.4bn in 1992 to RMB132.5bn last year.

A telling indication of the consumer revolution is the rising cost of advertising. A 30-second slot on prime time TV in Shanghai cost $2,340 in 1993, but by last year that figure had more than doubled to nearly $5,000. But what does the new generation of enthusiastic Shanghai consumers want to buy?

Probably not a television set – they already have one. The government calculates that there are now more than 113 colour TV sets to 100 Shanghai households. The black-and-white television, which is still common in the countryside, is a thing of the past in Shanghai.

Roughly one in five Shanghainese homes plans to buy a compact disc player, a video compact disc player or a microwave oven in the next five years.

More and more people want to have a personal computer at home. While just 1 per cent of rural Chinese told a Gallup survey last year that they wanted to buy a computer in the next two years, roughly 21 per cent of Shanghai residents aim to get a PC.

Standards, too, are rising with levels of consumption. Market research shows Shanghai's shoppers are increasingly discerning, keenly price sensitive, brand conscious and demanding high quality.

Foreign companies are increasingly advised against bringing old models from western markets to sell to the Chinese, who now tend to expect the latest innovations to be on the shelves in Shanghai almost as soon as they reach the stores in New York.

Like television sets, refrigerators have become standard fixtures in Shanghai homes. There were just 92 fridges to 100 households five years ago, but last year there were 101.

The capacity to keep goods cool and fresh in the home is changing eating habits too. Food still accounts for the vast bulk of Shanghainese spending, but what they buy is changing.

Milk, for example, is common in Shanghai homes – 71 per cent according to Gallup – but rare in rural households (8 per cent). Also, instant coffee is a regular item in a Shanghai kitchen (51 per cent), but hard to find in the countryside (1 per cent). Faster lifestyles are also fostering the pre-packed foods business and the snack food industry.

Big ticket items, though, are moving more slowly. For example, the number of motor vehicles in the city has grown more slowly than the economy – rising at less than 10 per cent a year.

Even how people pay has changed. Roughly a quarter of Shanghainese carry plastic, leading the way for the transition of China's cash-only economy to a market of credit card users.

VICE • by James Harding

Modest comeback for hedonism

Even in the new nightclubs people are more likely to be drinking Coke than taking drugs

"The tired or lustful business man will find here everything to gratify his desires. You can buy an electric razor, or a French dinner or well-cut suit...You can attend race-meetings, baseball games, football matches. You can see the latest American films. If you want girls, or boys, you can have them, at all prices, in the bathhouses and the brothels. If you want opium, you can smoke it in the best company, served on a tray, like afternoon tea. Good wine is difficult to obtain in this climate, but there is enough whisky and gin to float a fleet of battleships...Finally, if you ever repent, there are churches and chapels of all denominations."

Shanghai, as seen by W.H. Auden and Christopher Isherwood in 1934, is the stuff off nostalgia. Today the tired or lustful businessman may find such gratification harder to come by. The irony is that a city once synonymous with the most degenerate behaviour is, arguably, the most prudish and prurient metropolis in the world.

The second world war punctured its exuberance and, after the revolution, China's communists all but extinguished the party spirit.

Maoism made prostitution illegal and put an end to China's opium habit. It enshrined principles of peasant frugality, replaced a rich tradition of erotica with a prim and functional sexual code and sacrificed the pleasures and freedoms of the individual for the greater joys of national progress.

With prosperity, though, hedonism is making a modest comeback. Still, by the standards of the lurid fleshpots of Asia or the capitals of Europe and North America, vice is a cottage industry in Shanghai. Brothels are discreet, whores are coy, drugs are a rarity, drinkers tend to stick to beer and gambling, though endemic, is all in small change.

There are no official measures of depravity in Shanghai today. Prostitution, drugs and gambling are all illegal and the authorities do not want to draw attention to a renaissance in the industries of indulgence by publicising offenders.

Instead, the government's goal is to create "spiritual civilisation" – a "moral" society. Rather than back alleys crowded with neon-lit strip joints and adult bookshops, the lanes of downtown Shanghai are littered with government hoardings that instruct the people to follow the "Seven Nos".

They include "No foul language", "No spitting" and "No jay-walking". (Judging by behaviour, they are not taken that seriously.)

Nevertheless, the oldest profession was never fully suffocated in Shanghai and with the return of greater commercial freedom and the "lustful" businessman, prostitution is back from the verge of extinction. Behind what look like karaoke bars, massage parlours and barber shops, sexual services are on offer.

And, beyond the city limits – where provincial authorities have not made efforts to crack down on prostitution in the way Shanghai's puritan police force has done – the industry is making a furtive return.

All the same, it is a far cry from the 1920s and 1930s, when the number of prostitutes in Shanghai was estimated at roughly 100,000. What was once a flourishing drugs trade has also vanished. All that remains of the opium business are the old beds on which users smoked and idled away the hours.

In the rash of new nightclubs that have sprung up across Shanghai in the 1990s, the atmosphere is only a step up from that of a holiday camp disco. In these clubs more people are drinking Coca-Cola than doing designer drugs.

True, cases have been brought to light of Ecstasy use in Shanghai (the Chinese authorities call it the "head-rocking drug" because users often dance frenetically). But, in a city where 3m people are between the ages of 15 and 35, the absence of drugs is more striking than the occasional arrests.

Gambling, too, was once literally at the heart of the city, but the space it once occupied is now used for worthier things. The Shanghai racecourse used to sit on the land on which the government is finishing construction of a Grand Opera House and where it has already built municipal government offices and a huge museum.

Of course, betting between individuals, over games of Mah Jong, poker or televised sport, continues. On the outskirts of the city are racetracks, and a horseracing industry is waiting to be let loose as soon as the government relaxes the restrictions on betting. But, for the time being, the only casino in town is the stock market.

Perhaps Shanghai is a city in denial. Certainly, the failure to address the problems of prostitution and drug-taking make the official estimates of a relatively small number of Aids and HIV cases in China hard to credit.

The denial of vice is also in danger of making prostitution, drug-dealing and peddling pornography a lucrative business and one might speculate that the city that once fostered Du Yuesheng and the notorious Green Gang could spawn a class of gangsters again.

Today, though, the most violent and steamy transgressions in Shanghai are to be found in the history books and in the literature of Auden and Isherwood.

Treasuries lead Europe higher

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

European bond markets started the week higher in sympathy with gains in US Treasuries, but there was little else to stir them ahead of today's meeting of the Federal open market committee, which will chart the likely direction for US interest rates.

The consensus is that the FOMC will leave rates unchanged at a time when the market remains troubled by persistent political problems in Indonesia.

However, markets are looking to the release of the committee's notes on Thursday for any sign of a shift towards a tightening bias.

The communique issued by the G8 group of nations at the weekend was taken as "cautiously positive" for bonds, according to Jeremy Hawkins, chief economist at Bank of America.

At its Birmingham meeting, the group pledged to maintain strong growth while resisting inflationary pressures.

"The wording suggests that the UK, US and Canada are going to be alert to potential inflation problems. But the broader picture suggest that most countries are happy with the current stance on policy," Mr Hawkins said.

JAPANESE government bond yields fell to a record low – 1.255 per cent in London – as bond futures firmed.

US TREASURIES rallied as overseas issues overcame any fears that the FOMC will raise interest rates. By early afternoon the benchmark 30-year bond had climbed ½ to 102$\frac{12}{32}$, sending the yield lower to 5.938 per cent.

At the shorter end, the two-year note rose $\frac{1}{32}$ to 100$\frac{1}{32}$, yielding 5.606 per cent, while the 10-year note gained $\frac{1}{32}$ to 99$\frac{23}{32}$, yielding 5.654 per cent.

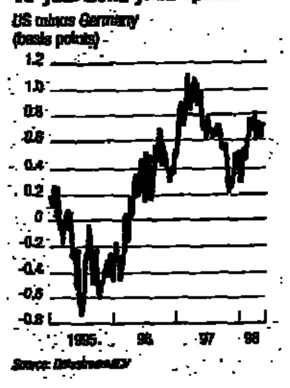
"I think the dollar is the driving force," said Patrick Dimick of UBS Securities. "There's very little liquidity, and the market's in wait and see mode."

The spread over GERMAN BUNDS was seen "continuing to outperform" in the near-term if US rates remain on hold and the Bundesbank is tempted to raise rates towards the end of the second quarter, according to David Brown, chief European economist at Bear Stearns.

Bunds ended higher but were stuck in a quarter-point range in meagre volume, awaiting the FOMC meeting. The June bund future settled at 106.82, up 0.11 basis points.

Analysts said bunds would keep a weather eye out for signs of rising economic activity expectations in today's release of the IFO business sentiment survey.

10-year bond yield spread
US minus Germany (basis points)



Source: Datastream/ICV

UK GILTS started weaker but later bounced back, in line with sterling, to outperform bunds. The spread over bunds continued to widen, finishing at 105 basis points.

The June 10-year future settled at 107.67 in modest volume of 76,000 contracts traded.

The market was looking to today's release of April retail price data and the government's public sector debt needs for the financial year, reflected in public sector borrowing requirement data.

Analysts expect the price data to show a sharp rise, up about 1 per cent on the month to give a headline rate of 4 per cent and an underlying rate of 2.8 per cent, ahead of the government's 2.5 per cent target.

Endesa launches public offer

By Tom Burns in Madrid

Endesa, the Spanish power group, yesterday launched the registration period for its record-breaking Pta1,164bn ($7.7bn) privatisation.

Manuel Pizarro, deputy chairman of Madrid's stock exchange, said the public offer would consolidate Spain as a shareholder society.

The sale, at current market prices, is double the size of an offering of Endesa shares last October, which itself set a benchmark for Spain's capital markets.

It also completes the centre-right government's 15-month privatisation drive, which has included the sale of Telefònica, the telecoms operator; Repsol, the energy conglomerate; Argentaria, the banking group; and Tabacalera, the tobacco distributor.

The previous Endesa offer raised the power group's shareholder base from 200,000 to 1.6m, and the latest sale is expected to increase its number of shareholders to well over 2m.

The sale of 33 per cent of the electricity generator and distributor owned by Sepi, a government agency, will be completed on June 8. A further 8.2 per cent of Sepi-held stock will subsequently be bought back by the utility.

At least 70 per cent of the initial offer of 306.8m shares is weighted towards small savers, who will receive a 3 per cent discount as well as a 3 per cent cash bonus in six months.

Sepi has appointed Argentaria, Banco Santander, Banco Bilbao Vizcaya and Dresdner Kleinwort Benson as global co-ordinators.

Eksportfinans breaks torpor

INTERNATIONAL BONDS

By Vincent Boland

Eksportfinans, the private-sector Norwegian export finance group, brought its biggest dollar issue to the market yesterday, the first of what it expects will be an annual series of benchmark deals to finance a growing lending business.

Priced to yield 28 basis points over the comparable US Treasury, the $500m five-year issue was aimed at building an investor base for Eksportfinans among European institutions, as its lending activity swells in response to Norway's strong economy. Previous bond issues have been bought primarily by retail investors in Europe and Japan.

The new bond reflected what the group said was its changing borrowing strategy, and was the first public issue from Eksportfinans aimed mainly at capturing institutional interest.

"We have a borrowing requirement of $2.2bn for 1998, which is more than for previous years, hence the change of strategy. This benchmark issue fits into that quite nicely," said Ebba Lie, vice-president for funding at Eksportfinans.

"We are looking to make the Eksportfinans name better known. This was our first attempt to target European institutions with a public transaction," she added.

Eksportfinans, owned by the country's banks and rated AAA by S&P and Moody's, has between $7bn and $8bn in outstanding borrowings, and yesterday's issue brings the total raised so far this year to $900m.

Bankers at Nomura, lead manager, said more than two-thirds of the bond was sold to European buyers, with 18 per cent going to Japanese investors.

"There is very little paper on offer at sensible spreads from Nordic issuers, and this is sensibly priced," one banker said.

"It is correctly priced and there has been some aggressive switching into the deal, but it adds little new to the market because there has been a lot of five-year dollar paper recently," a syndicate member at another bank noted.

Elsewhere, activity was low in one of the quietest days for some weeks. Bankers said that business was likely to be lacklustre because of the Federal open market committee meeting and a holiday later in the week across much of Europe.

However, there were expectations that the European Investment Bank would bring a $2bn three-year issue, perhaps as early as today, with Salomon Smith Barney and Goldman Sachs at the helm.

Lithuania has also mandated Credit Suisse First Boston and Dresdner Bank to launch a DM300m, five-year issue within the next six weeks.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Norgeskreditt‡	250	(a)	99.944R	Jun 2003	0.20R	-	Morgan Stanley DW
Eksportfinans	500	6.00	99.888R	Jun 2003	0.25R	+25(5⅝%Apr03)	Nomura International
STERLING							
Barclays Capital Jersey(b)	50	7.50	99.70	Jun 2003	undiscl	-	Barclays Capital
Barclays Capital Jersey(b)‡	50	(b1)	100.00	Jun 2003	undiscl	-	Barclays Capital
FRENCH FRANCS							
Casnot	1.5bn	(f)	99.926R	Jun 2001	0.175R	-	Banque CPR/CCF
SWISS FRANCS							
Helaba Intl Finance plc(c)	150	3.00	108.40	Jul 2002	1.75	-	CSFB
Telenor(d)	100	2.00	98.75	Apr 2003	2.00	-	Deutsche Bank(Schweiz)

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +8.25bp. b) Credit linked. b1) 6-mth Libor +100bp. c) Fungible with SFr450m. Plus 330 days accrued. d) Fungible with SFr150m. Plus 60 days accrued. f) 3-mth Pibor +14bp.

NEWS DIGEST

MEDIA

Pearson signs up facility to finance US acquisition

Pearson, the UK media group which owns the Financial Times, has signed up $6bn of bank facilities to finance its acquisition of Simon & Schuster, the US publisher, and refinance outstanding syndicated loans. It is the latest in a line of substantial acquisitions to be financed through the syndicated loan market, following Texas Utilities' recent $11bn loan to fund its purchase of The Energy Group and jumbo loans from Imperial Chemical Industries and BAT Industries.

The new financing package has been put together by Goldman Sachs and HSBC and includes a $2.5bn five-year term loan, a $2bn five-year revolving credit and a $1.5bn 364-day loan. Investors expect the loans to be tradeable. This has become commonplace in the US but was only introduced to the euroloan market last year with the $8.5bn loan to ICI to finance its acquisition of Unilever's speciality chemicals business.

There has been considerable reluctance by European corporates to have bankers trading out of loans. The quid pro quo, in theory, is more attractive financing. Details of the terms of the loan were not available yesterday. A broader underwriting group will be put together in the next 10 days.

Pearson's credit rating from Standard & Poor's, the rating agency, has been put on negative outlook as a result of the acquisition, but its shares rose sharply yesterday.
Simon Davies

EMERGING MARKETS

Trading falls in first quarter

A sharp fall in the volume of trading in Latin American bonds led to a small decline of overall trading in emerging market debt in the first quarter, according to a report by the Emerging Markets Traders Association. International traders turned their focus away from Latin America and from restructured Brady bonds in general in the first three months of 1998 to focus on the smaller but growing debt markets of Asia and Russia, said EMTA.

Although Latin America accounted for almost 70 per cent of turnover, this was sharply down from its 84 per cent share in the first quarter of 1997. Overall volume was also depressed by the narrow trading range of emerging market debt in the aftermath of the worst of the Asia crisis in late 1997.
Edward Luce

INDONESIA

S&P cuts rating again

Standard & Poor's again cut Indonesia's credit rating yesterday citing the country's rapidly deteriorating political situation. The rating, which was cut to CCC+ from B minus, remains on watch. Edward Luce

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

May 18	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.4870	5.05	+0.02	+0.07	+0.14	-1.17
	10/07	10.000	130.8672	5.67	+0.02	+0.04	+0.09	-1.93
Austria	09/99	7.000	103.5900	4.15	+0.01	-	-	+0.29
	07/07	5.625	103.8600	5.09	-0.01	+0.02	+0.15	-0.58
Belgium	01/00	4.000	99.6700	4.20	-	-0.01	+0.02	+0.59
	03/07	6.250	108.1300	5.08	-0.01	+0.01	+0.14	-0.70
Canada	09/99	4.750	99.3900	5.23	+0.02	+0.04	+0.30	+0.55
	06/07	7.250	112.7000	5.43	+0.02	-0.04	+0.17	-1.08
Denmark	12/99	6.000	101.8200	4.73	-0.01	+0.03	+0.36	+0.80
	11/07	7.000	112.5200	5.28	-0.01	-	+0.21	-1.00
Finland	01/99	11.000	104.4263	3.87	-	+0.02	+0.10	+0.17
	04/06	7.250	114.2470	5.02	-	+0.02	+0.16	-1.06
France	01/00	4.000	99.8000	4.12	-	+0.02	-0.01	+0.53
	10/04	6.750	110.6700	4.78	-	+0.02	+0.11	-0.33
	10/07	5.500	103.4700	5.02	-0.01	-	+0.14	-0.57
	10/25	6.000	105.9100	5.57	-0.01	+0.02	+0.18	-0.93
Germany	08/99	4.000	100.0200	3.97	-0.02	-0.02	-0.05	+0.46
	11/04	7.500	114.4800	4.83	-	+0.01	+0.13	-0.38
	07/07	6.000	107.0600	5.01	-0.01	+0.01	+0.15	-0.67
	07/27	6.500	113.2800	5.57	-0.01	+0.01	+0.18	-0.89
Ireland	04/99	6.250	100.9000	5.12	-0.01	+0.14	+0.14	-0.79
	08/06	8.000	118.3000	5.71	-0.01	+0.02	+0.18	-1.37
Italy	05/00	6.000	102.7000	4.55	-0.01	+0.03	+0.05	-1.88
	05/02	6.250	105.2300	4.79	-	+0.03	+0.08	-1.91
	07/07	6.750	111.2300	5.19	-0.02	+0.03	+0.16	-2.05
	11/26	7.250	121.6800	5.70	-0.02	+0.04	+0.19	-2.12
Japan	03/00	6.400	110.8900	0.39	-0.04	-0.01	-0.18	-0.62
	12/02	4.800	117.4700	0.89	-0.03	-0.04	-0.24	-1.07
	09/05	3.000	111.6000	1.33	-0.02	-0.07	-0.25	-1.19
	09/17	3.000	112.8400	2.18	-0.03	-0.08	-0.25	-1.10
Netherlands	11/99	7.500	104.7100	4.13	+0.04	+0.02	-	+0.40
	02/07	5.750	105.3000	4.98	-0.02	+0.01	+0.14	-0.69
New Zealand	02/00	6.500	98.3856	7.51	-0.03	-0.14	-0.12	+0.19
	11/06	8.000	107.9745	6.72	-0.06	-0.09	+0.01	-0.81
Norway	01/99	9.000	102.8800	4.62	+0.01	+0.12	+0.26	+0.59
	01/07	6.750	108.4000	5.50	+0.02	+0.08	+0.28	-0.40
Portugal	03/99	8.500	103.3900	4.26	-	+0.08	+0.08	-1.03
	02/07	6.625	110.1600	5.15	-0.01	+0.03	+0.17	-1.21
Spain	07/99	7.400	103.5900	4.23	-	+0.02	-	-0.95
	03/07	7.350	115.3300	5.15	-	+0.03	+0.17	-1.37
Sweden	01/99	11.000	104.0190	4.62	-0.07	-0.06	-0.01	-0.17
	08/07	8.000	119.8430	5.23	-0.03	-0.02	+0.12	-1.72
Switzerland	03/00	5.000	105.4700	1.89	-	-0.01	+0.02	+0.14
	06/07	4.500	111.3200	3.05	-	-0.02	+0.05	-0.48
UK	08/98	6.000	99.1328	6.74	+0.01	+0.10	+0.06	+0.05
	11/04	6.750	103.7500	6.05	-0.01	+0.12	+0.16	-0.95
	12/07	7.250	109.3281	5.95	-0.02	+0.08	+0.18	-1.09
	06/21	8.000	126.3750	5.89	-0.01	+0.10	+0.20	-1.23
US	10/99	5.625	100.0000	5.62	-	-0.03	+0.06	-0.62
	11/04	7.875	111.5160	5.73	-0.02	-0.09	+0.08	-0.82
	08/07	6.125	102.6950	5.74	-0.03	-0.10	+0.08	-0.98
	08/27	6.375	105.6330	5.96	-0.05	-0.12	+0.06	-0.94
ECU	01/00	4.000	99.5700	4.26	+0.01	+0.04	+0.08	+0.03
	04/07	5.500	103.1500	5.05	-0.03	+0.01	+0.13	-0.88

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	103.09	103.14	+0.10	103.21	103.05	59,968	90,810
Sep	102.61	102.66	+0.10	102.81	102.56	1,705	8,174

LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]

Germany

[illegible]

Italy

[illegible]

Spain

[illegible]

UK

[illegible]

US

[illegible]

Japan

[illegible]

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	102.52	102.90	+0.08	-	-	1	91,118
Sep		102.66		-	-	50	-

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

May 18	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EIB	02/07	5.750	AAA	104.9300	5.04	-	+0.15	+0.03
Spain	01/07	5.750	AA	104.3200	5.11	+0.02	+0.15	+0.10
[illegible]								

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

Yen at seven year low against dollar

MARKETS REPORT

By Richard Adams

The yen sagged to its lowest point since September 1991 against the US dollar during trading on foreign exchange markets yesterday.

Analysts interpreted the absence of comments supporting the yen in the Group of Eight heads of government communique at the weekend as a cause to sell the yen. Further turmoil in Indonesia and more bad news on the balance sheets of Japanese banks triggered further selling when the London and New York markets opened.

The yen ended trading in London at Y136.11, its weakest level since September 1991. *Against the D-Mark the* yen was also weak. It traded above Y76, the D-Mark's strongest for over five years.

The dollar's strength against the yen helped sterling recover from a rocky opening session in London, when it dipped to DM2.88 against the German currency. But in later trading sterling bounced back above DM2.90. It ended the day barely changed from its closing rate last week.

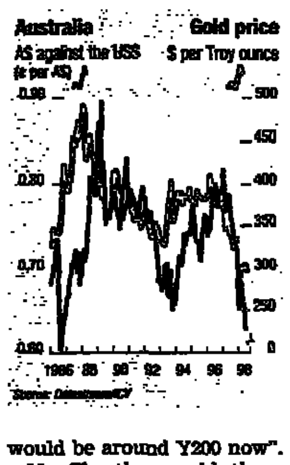
The Indonesian rupiah remained in trouble after a weekend of violence in Indonesia and reports of further demonstrations to go ahead later this week. Analysts said liquidity was almost non-existent, with bid-offer spreads moving out to between Rp11,700 and Rp12,800.

The Russian rouble came under speculative attack, as jitters surronding emerging markets spread. The central bank and finance ministry made public statements of support in the currency ands the banking system.

David Simmonds, emerging markets currency analyst at Citibank in London, said that while his institution was "positive" about the new Russian government, "there are some concerns about the Russian banking system, and how much higher interest rates they will pay."

■ The yen's travails are nowhere near over. The yen was sandwiched between the possibility that the Bank of *Japan may cut rates today*, in an attempt to jump-start the domestic economy, and the Federal Reserve's monetary committee meeting. The FOMC, in the opinion of a number of economists, may raise rates.

But Paul Chertkow, chief currency analyst at the Bank of Tokyo-Mitsubishi, points out that if interest rate differentials were all that mattered, "the dollar would be around Y200 now".



Mr Chertkow said there was a chance the Japanese central bank might consider a more dramatic option to tackle the economy's malaise. If the central bank were to abandon using its discount rate in lending to banks, and adopt a system of money targets or bank reserve targets – as used successfully by Paul Volcker, chairman of the US Federal Reserve, in 1979. A resulting easing in liquidity might help boost lending more effectively than simply cutting rates.

Mr Volcker's policy shift was in response to an overheating economy, the very opposite of the problem facing the Japanese authorities. But Mr Chertkow says the net effect is the same: control liquidity, and let the private sector banks sort out the interest rate.

"There is a downside to this. There has never been *that sort of monetary easing* without a currency consequence," Mr Chertkow said. The US might consider such a policy too lax.

■ Sterling bounced around yesterday. It started the day heading downwards against the *D-Mark*, after a Sunday newspaper report that Tony Blair, the UK prime minister, wanted to see sterling join European monetary union at a rate of DM2.63.

But the report was aggressively denied by the Treasury. "You only have to look at [the story] to see it is rubbish," a Treasury spokesman said. "There is no substance to it at all."

The denial sparked a recovery, as the dollar surged. The stronger dollar dragged the pound up in its wake. Sterling finished the day almost unchanged against the D-Mark, at DM2.9008. But against the dollar the pound was almost a cent weaker.

Mr Chertkow said investors may be returning to the pound, because of the lack of alternatives to the dollar.

■ POUND IN NEW YORK

May 18	Latest	Prev. close
£ spot	1.6230	1.6280
1 mth	1.6204	1.6235
3 mth	1.6160	1.6190
1 yr	1.5995	1.6025

■ OTHER CURRENCIES

May 18	£	$
Czech Rp	52.8300 - 52.9274	32.5950 - 32.6350
Hungary	342.945 - 343.238	211.590 - 211.640
Iran	4865.40 - 4862.40	3000.00 - 3000.00
Kuwait	0.4961 - 0.4966	0.3061 - 0.3062
Peru	4.6063 - 4.6124	2.8420 - 2.8440
Poland	5.5788 - 5.5803	3.4420 - 3.4470
Russia	10.0165 - 10.0276	6.1800 - 6.1830
U.A.E.	5.9527 - 5.9570	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

May 18		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.4129	−0.0108	026 - 232	20.4384	20.2980	20.3419	4.2	20.2215	3.8	19.7459	3.3	103.1
Belgium	(BFr)	59.8908	−0.0009	399 - 417	59.9550	59.4700	59.685	4.1	59.3316	3.7	57.9389	3.3	102.6
Denmark	(DKr)	11.0484	−0.0056	433 - 534	11.0867	10.9840	11.0197	3.1	10.9708	2.8	10.7631	2.6	105.0
Finland	(FM)	8.8167	−0.004	099 - 234	8.8260	8.7670	8.7982	4.2	8.7371	3.6	8.5353	3.2	80.9
France	(FFr)	9.7319	−0.0035	248 - 389	9.7410	9.6737	9.6976	4.2	9.6388	3.8	9.411	3.3	106.0
Germany	(DM)	2.9008	−0.0017	994 - 022	2.9046	2.8841	2.8906	4.2	2.8733	3.8	2.8056	3.3	104.1
Greece	(Dr)	501.792	−0.309	557 - 028	504.169	497.376	504.05	−5.4	508.01	−5.0	520.897	−3.8	59.9
Ireland	(I£)	1.1522	+0.0011	509 - 535	1.1545	1.1464	1.1512	1.0	1.1488	1.2	1.1288	2.0	94.8
Italy	(L)	2860.54	−1.33	861 - 248	2863.99	2843.51	2855.81	2.1	2844.1	2.3	2782.22	2.7	76.8
Luxembourg	(LFr)	59.8908	−0.0009	399 - 417	59.9650	59.4700	59.685	4.1	59.3316	3.7	57.9369	3.3	102.6
Netherlands	(Fl)	3.2687	−0.0025	672 - 702	3.2725	3.2506	3.2572	4.2	3.2378	3.8	3.1612	3.3	102.0
Norway	(NKr)	12.2043	+0.008	998 - 087	12.2118	12.1084	12.1706	3.3	12.113	3.0	11.9037	2.5	96.2
Portugal	(Es)	297.347	−0.026	174 - 519	297.527	295.864	296.583	3.2	295.057	3.1	288.272	3.1	91.9
Spain	(Pta)	246.413	+0.096	313 - 514	246.630	245.070	245.744	3.3	244.538	3.0	239.057	3.0	76.9
Sweden	(SKr)	12.6470	+0.038	349 - 590	12.6593	12.5309	12.6149	3.0	12.5591	2.8	12.3351	2.5	86.4
Switzerland	(SFr)	2.4142	+0.0011	126 - 157	2.4214	2.4049	2.4017	6.2	2.3794	5.8	2.2886	5.2	105.9
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.1
Ecu	-	1.4724	−0.0014	714 - 733	1.4766	1.4663	1.4682	3.4	1.4608	3.2	1.4283	3.0	-
SDR†	-	1.214869	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6210	−0.0076	205 - 215	1.6243	1.6152	-	-	-	-	-	-	-
Brazil	(R$)	1.8598	−0.0086	591 - 605	1.8631	1.8527	-	-	-	-	-	-	-
Canada	(C$)	2.3555	−0.008	544 - 566	2.3629	2.3480	2.3504	2.6	2.3417	2.4	2.3085	2.0	81.5
Mexico	(New Peso)	13.8200	−0.0515	076 - 323	13.8386	13.7619	13.8598	−12.1	14.2363	−12.0	15.5287	−12.4	-
USA	($)	1.6213	−0.0081	208 - 218	1.6252	1.6160	1.6187	1.9	1.6142	1.7	1.5976	1.5	111.1
Pacific/Middle East/Africa													
Australia	(A$)	2.6102	+0.0136	083 - 120	2.6186	2.5899	2.6048	2.5	2.5943	2.4	2.5515	2.2	83.0
Hong Kong	(HK$)	12.5839	−0.0604	596 - 681	12.5929	12.5248	12.5825	0.1	12.5732	−0.3	12.8356	−2.2	-
India	(Rs)	65.7032	−0.3751	424 - 640	66.0600	65.3670	-	-	-	-	-	-	-
Israel	(Shk)	5.9357	−0.0416	271 - 442	5.9610	5.9225	-	-	-	-	-	-	-
Japan	(Y)	220.675	+2.212	526 - 824	220.910	218.330	219.29	7.5	216.82	7.0	206.05	6.6	113.9
Malaysia	(M$)	6.2218	+0.1217	117 - 318	6.2770	6.0800	6.3495	−24.6	6.4774	−16.4	6.9297	−11.4	-
New Zealand	(NZ$)	3.0456	+0.0049	426 - 485	3.0497	3.0317	3.0498	−1.7	3.0582	−1.4	3.0782	−1.1	96.0
Philippines	(Peso)	64.2522	−0.5146	702 - 341	64.4588	63.8704	64.7137	−8.6	65.821	−8.5	69.8594	−8.7	-
Saudi Arabia	(SR)	6.0810	−0.0301	790 - 829	6.0953	6.0611	6.0734	1.5	6.0618	1.3	6.019	1.0	-
Singapore	(S$)	2.6905	+0.0067	784 - 825	2.7088	2.6137	2.6916	−5.0	2.7035	−3.4	2.7252	−1.7	-
South Africa	(R)	8.2678	−0.0142	628 - 728	8.2792	8.2246	8.3211	−7.7	8.4041	−6.6	8.7252	−5.5	-
South Korea	(Won)	2341.97	−0.22	881 - 512	2347.76	2333.16	-	-	-	-	-	-	-
Taiwan	(T$)	54.7675	+0.2812	263 - 087	54.8749	54.3287	54.8419	−1.6	54.9901	−1.6	55.5645	−1.5	-
Thailand	(Bt)	63.8793	+0.5382	974 - 611	64.0720	63.1680	64.2952	−7.8	64.9502	−6.7	68.7769	−7.7	-

† Rates for May 15. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.5905	+0.0556	880 - 929	12.5960	12.5346	12.5668	2.3	12.5267	2.0	12.3598	1.8	102.9
Belgium	(BFr)	36.9400	+0.182	200 - 600	36.9800	36.6310	36.872	2.2	36.7545	2.0	36.265	1.8	102.5
Denmark	(DKr)	6.8145	+0.0302	135 - 155	6.8189	6.7844	6.8078	1.2	6.796	1.1	6.737	1.1	104.4
Finland	(FM)	5.4380	+0.0244	355 - 405	5.4410	5.4131	5.4278	2.2	5.4123	1.9	5.3425	1.8	80.4
France	(FFr)	6.0025	+0.0275	000 - 050	6.0059	5.9733	5.991	2.3	5.971	2.1	5.8907	1.9	105.5
Germany	(DM)	1.7892	+0.0078	889 - 895	1.7906	1.7814	1.7858	2.3	1.7799	2.1	1.7561	1.8	103.7
Greece	(Dr)	309.500	+1.34	450 - 550	310.970	307.630	311.39	−7.3	314.7	−6.7	326.05	−5.3	59.7
Ireland	(I£)	1.4072	−0.0083	060 - 083	1.4135	1.4050	1.4061	1.0	1.4053	0.6	1.4153	−0.6	-
Italy	(L)	1764.35	+7.9	370 - 500	1765.35	1756.50	1764.13	0.1	1761.85	0.6	1741.5	1.3	75.9
Luxembourg	(LFr)	36.9400	+0.182	200 - 600	36.9800	36.6310	36.872	2.2	36.7545	2.0	36.265	1.8	102.5
Netherlands	(Fl)	2.0161	+0.0084	158 - 164	2.0177	2.0074	2.0122	2.3	2.0057	2.1	1.9787	1.9	101.8
Norway	(NKr)	7.5275	+0.0421	270 - 279	7.5325	7.4740	7.5187	1.4	7.5038	1.3	7.451	1.0	95.6
Portugal	(Es)	183.400	+0.89	350 - 450	183.490	182.760	183.209	1.2	182.78	1.4	180.44	1.6	92.5
Spain	(Pta)	151.985	+0.81	970 - 000	152.060	151.310	151.815	1.3	151.486	1.3	149.635	1.5	76.6
Sweden	(SKr)	7.8005	+0.0618	955 - 055	7.8063	7.7254	7.7932	1.1	7.78	1.1	7.721	1.0	86.5
Switzerland	(SFr)	1.4890	+0.008	885 - 895	1.4915	1.4843	1.4836	4.4	1.4739	4.1	1.4324	3.8	105.5
UK	(£)	1.6213	−0.0081	208 - 218	1.6252	1.6160	1.6187	1.9	1.6142	1.7	1.5976	1.5	103.3
Ecu	-	1.1012	−0.0044	008 - 015	1.1047	1.1004	1.1036	−1.5	1.1051	−1.4	1.1186	−1.6	-
SDR†	-	0.74450	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	+0.0003	998 - 998	0.9999	0.9997	-	-	-	-	-	-	-
Brazil	(R$)	1.1471	+0.0004	470 - 472	1.1475	1.1469	-	-	-	-	-	-	-
Canada	(C$)	1.4529	+0.0023	526 - 531	1.4545	1.4487	1.4521	0.7	1.4506	0.6	1.4457	0.5	81.7
Mexico	(New Peso)	8.5240	+0.0105	190 - 290	8.5295	8.5185	8.624	−14.1	8.819	−13.8	9.72	−14.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	111.4
Pacific/Middle East/Africa													
Australia	(A$)	1.6099	+0.0163	093 - 106	1.6113	1.5969	1.6091	0.6	1.6065	0.8	1.5958	0.9	83.2
Hong Kong	(HK$)	7.7493	+0.0012	490 - 495	7.7505	7.7485	7.7608	−1.8	7.7888	−2.0	8.0343	−3.7	-
India	(Rs)	40.5250	−0.03	000 - 500	40.6900	40.4000	-	-	-	-	-	-	-
Israel	(Shk)	3.6611	−0.0074	569 - 652	3.6778	3.6518	-	-	-	-	-	-	-
Japan	(Y)	136.110	+2.03	060 - 160	136.200	134.650	135.47	5.6	134.315	5.3	128.97	5.2	116.6
Malaysia	(M$)	3.8375	+0.0936	325 - 425	3.8675	3.7450	3.9225	−26.6	4.0125	−18.2	4.3375	−13.0	-
New Zealand	(NZ$)	1.8785	+0.0123	772 - 797	1.8810	1.8720	1.8816	−2.0	1.887	−1.8	1.9058	−1.5	-
Philippines	(Peso)	39.6300	−0.12	300 - 300	39.8000	39.3000	39.9785	−10.6	40.6505	−10.3	43.7275	−10.3	-
Saudi Arabia	(SR)	3.7507	+0.0001	506 - 507	3.7510	3.7505	3.752	−0.4	3.7551	−0.5	3.7675	−0.4	-
Singapore	(S$)	1.6533	+0.0123	525 - 540	1.6695	1.6115	1.6628	−6.9	1.6748	−5.2	1.7058	−3.2	-
South Africa	(R)	5.0995	+0.0165	980 - 010	5.1024	5.0870	5.1406	−9.7	5.2062	−8.4	5.4615	−7.1	-
South Korea	(Won)	1444.50	+7	300 - 600	1447.00	1441.00	-	-	-	-	-	-	-
Taiwan	(T$)	33.7800	+0.3395	650 - 950	33.8100	33.5970	33.88	−3.6	34.065	−3.4	34.78	−3.0	-
Thailand	(Bt)	39.4000	+0.525	000 - 000	39.5400	38.9000	39.72	−9.7	40.235	−8.5	43.05	−9.3	-

† SDR rate per $ for May 15. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 15: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

May 18	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3½	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	–
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	–	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	–	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.50	5.00	5.63
Netherlands	[illegible]	3½	[illegible]	[illegible]	[illegible]	–	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	1.00	–
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	5.00	–
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
US Dollar CDs	–	5.44	5.48	5.52	5.62	–	–	–
ECU Linked Ds	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
SDR Linked Ds	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 18	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	5 - 4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	7½ - [illegible]	[illegible]	[illegible]	7½ - [illegible]	7½ - [illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	½ - [illegible]	½ - [illegible]	½ - [illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7½ - [illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.360	96.350	+0.005	96.355	96.345	8,918	74,370
Sep	96.165	96.165	+0.005	96.170	96.160	4,888	74,370

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.325	96.330	+0.005	96.335	96.320	51671	374444
Sep	96.165	96.160	+0.005	96.165	96.145	20198	394315
Dec	95.935	95.935	+0.005	95.940	95.920	19652	437213
Mar	95.805	95.795	-	95.805	95.780	11690	368805

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
May		96.440	-0.005			0	267
Jun		96.400	+0.005			0	0

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.240	95.180	-0.030	95.240	95.170	33381	250770
Sep	95.720	95.700	-0.010	95.720	95.680	16384	260445
Dec	95.890	95.890	+0.010	95.890	95.870	6133	175674
Mar	95.790	95.780	-	95.790	95.760	2544	203591

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.360	98.360	-0.020	98.370	98.330	5020	55883
Sep	98.160	98.160	-0.020	98.170	98.130	7275	49929
Dec	97.920	97.930	-0.020	97.940	97.900	2177	28626
Mar	97.790	97.840	-0.010	97.850	97.790	481	11415

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		99.43	+0.02			0	n/a
Sep		99.47	+0.04			0	n/a
Dec	99.46	99.47	+0.06	99.47	99.46	52	n/a

* LIFFE futures also traded on APT

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.750	95.750	-	95.760	95.750	751	12540
Sep	95.790	95.790	-	95.790	95.790	378	17542
Dec	95.890	95.905	+0.005	95.905	95.890	76	7154
Mar	95.795	95.795	-0.005	95.795	95.795	2	5187

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
95125	0.105			0.050		
95250	0.050	0.470	0.660	0.120	0.020	0.020
95375	0.020			0.215		

Est. vol. total, Calls 3920 Puts 625. Previous day's open int., Calls 332736 Puts 295193

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 18		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.45	16.25	4.844	1.924	4776	5.458	20.38	496.5	411.4	21.12	4.031	1.670	3.933	2.707	368.5	2.458
Denmark	(DKr)	54.21	10	8.808	2.626	1.043	2589	2.959	11.05	269.1	223.0	11.45	2.185	0.905	2.132	1.467	199.7	1.333
France	(FFr)	61.54	11.35	10	2.981	1.184	2939	3.359	12.54	305.5	253.2	13.00	2.481	1.028	2.421	1.666	226.8	1.513
Germany	(DM)	20.65	3.809	3.355	1	0.397	986.1	1.127	4.207	102.5	84.95	4.360	0.832	0.345	0.812	0.559	76.07	0.508
Ireland	(I£)	51.98	9.589	8.447	2.518	1	2483	2.837	10.59	258.1	213.9	10.98	2.095	0.868	2.045	1.407	191.5	1.278
Italy	(L)	2.094	0.386	0.340	0.101	0.040	100	0.114	0.427	10.39	8.614	0.442	0.084	0.035	0.082	0.057	7.714	0.051
Netherlands	(Fl)	18.32	3.380	2.977	0.887	0.352	875.1	1	3.734	90.97	75.39	3.869	0.739	0.306	0.721	0.496	67.51	0.450
Norway	(NKr)	49.07	9.053	7.974	2.377	0.944	2344	2.678	10	243.6	201.9	10.38	1.978	0.819	1.930	1.328	180.8	1.206
Portugal	(Es)	20.14	3.716	3.273	0.976	0.387	962.0	1.099	4.104	100	82.87	4.253	0.812	0.336	0.792	0.545	74.21	0.495
Spain	(Pta)	24.31	4.484	3.949	1.177	0.468	1161	1.327	4.953	120.7	100	5.132	0.980	0.406	0.956	0.658	89.55	0.598
Sweden	(SKr)	47.36	8.736	7.695	2.294	0.911	2262	2.585	9.650	235.1	194.8	10	1.909	0.791	1.863	1.282	174.5	1.164
Switzerland	(SFr)	24.81	4.577	4.031	1.202	0.477	1185	1.354	5.055	123.2	102.1	5.239	1	0.414	0.976	0.672	91.41	0.610
UK	(£)	59.89	11.05	9.732	2.901	1.152	2861	3.269	12.20	297.3	246.4	12.65	2.414	1	2.356	1.621	220.7	1.472
Canada	(C$)	25.43	4.690	4.131	1.231	0.489	1214	1.388	5.181	126.2	104.6	5.369	1.025	0.425	1	0.688	93.68	0.625
USA	($)	36.94	6.815	6.003	1.789	0.711	1764	2.016	7.528	183.4	152.0	7.801	1.489	0.617	1.453	1	136.1	0.908
Japan	(Y)	27.14	5.007	4.410	1.315	0.522	1296	1.481	5.530	134.7	111.7	5.731	1.094	0.453	1.067	0.735	100	0.667
Ecu	–	40.68	7.504	6.610	1.970	0.783	1943	2.220	8.289	202.0	167.4	8.590	1.640	0.679	1.600	1.101	149.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5615	0.5600	−0.0013	0.5623	0.5600	24,834	123,554
Sep	0.5632	0.5630	−0.0011	0.5633	0.5629	472	5,715
Dec	–	0.5668	–	–	–	4	140

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7455	0.7402	−0.0062	0.7456	0.7400	15,669	91,634
Sep	0.7540	0.7510	−0.0053	0.7540	0.7500	478	2,703
Dec	–	0.7625	−0.0039	–	0.7625	10	294

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6750	0.6730	−0.0021	0.6761	0.6726	12,260	57,366
Sep	0.6813	0.6813	−0.0007	0.6813	0.6800	61	1,594
Dec	0.6870	0.6870	−0.0016	0.6870	0.6868	4	48

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6202	1.6180	−0.0070	1.6228	1.6142	9,112	50,665
Sep	1.6120	1.6110	−0.0074	1.6140	1.6110	72	900
Dec	–	1.6040	−0.0078	–	1.6040	30	187

UK INTEREST RATES

LONDON MONEY RATES

May 18	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on May 15, 7.0197pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1998. Agreed rate for period May 26, 1998 to Jun 25, 1998, Scheme III 8.78pc. Reference rate for period Apr 1, 1998 to Apr 30, 1998, Schemes IV & V 7.527pc. Finance House Base Rate 8pc from May 1, 1998

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.500	92.490	-0.010	92.510	92.480	16180	170132
Sep	92.580	92.580	-	92.610	92.560	13305	112282
Dec	92.730	92.720	-	92.760	92.690	27801	119035
Mar	92.910	92.900	-	92.940	92.870	16888	99621
Jun	93.100	93.100	+0.010	93.130	93.050	8811	80776

Also traded on APT. All Open interest figs. are for previous day

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
92375	0.125			0.010		
92500	0.040	0.150	0.290	0.050	0.070	0.070
92625	0.010			0.145		

Est. vol. total, Calls 3603 Puts 2522. Previous day's open int., Calls 407753 Puts 285794

EMS EUROPEAN CURRENCY UNIT RATES

May 18	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	357.000	340.553	−0.434	−4.61	4.34	31
Ireland	0.796244	0.781367	−0.000229	−1.87	1.43	13
Italy	1957.61	1940.34	−0.35	−0.88	0.42	6
Spain	168.220	167.149	+0.07	−0.64	0.17	4
Denmark	7.54257	7.49451	−0.00118	−0.64	0.17	4
Portugal	202.692	201.619	−0.003	−0.53	0.06	4
Finland	6.01125	5.98094	+0.00112	−0.50	0.04	3
France	6.63186	6.59863	−0.00155	−0.50	0.04	4
Germany	1.97738	1.96773	−0.00042	−0.49	0.02	5
Netherlands	2.22799	2.21739	−0.0005	−0.48	0.01	4
Belgium	40.7844	40.5924	−0.0116	−0.47	0.01	3
Austria	13.9119	13.8472	−0.002	−0.47	0.00	3
NON ERM MEMBERS						
UK	0.653644	0.678826	+0.000889	3.85	−4.16	–

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. 16/3/98: Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls May	Calls Jun	Calls Jul	Puts May	Puts Jun	Puts Jul
1.620	0.65	1.59	2.09	0.03	1.13	1.79
1.630	0.04	1.10	1.56	0.37	1.65	2.32
1.640	-	0.73	1.20	1.25	2.15	2.87

Previous day's vol., Calls 87 Puts 408 . Prev. day's open int., Calls 15,080 Puts 14,189

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	Calls May	Calls Jun	Calls Jul	Puts May	Puts Jun	Puts Jul
0.555	0.51	0.88	1.16	-	0.24	0.43
0.560	0.06	0.57	0.84	-	0.42	0.63
0.565	0.01	0.35	0.61	0.41	0.70	0.89

Previous day's vol., Calls 617 Puts 350 . Prev. day's open int., Calls 14,074 Puts 22,185

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.27	94.27	-	94.27	94.26	25,284	446,707
Sep	94.22	94.24	+0.01	94.24	94.21	36,484	444,023
Dec	94.14	94.15	+0.01	94.16	94.13	33,330	377,980

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.94	94.92	-	94.94	94.92	129	2,020
Sep	94.91	94.92	+0.02	94.92	94.90	284	1,462
Dec	-	94.90	-	94.90	-	3	38

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	Calls				Puts			
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, Calls 7713 Puts 4052. Previous day's open int., [illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	Calls			Puts		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, Calls 1015 Puts 0. Previous day's open int., [illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	•Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	•Smith & Williamson	7.25
•Henry Ansbacher	7.25	•Robert Fleming & Co	7.25	Sun Bank	7.25
Banco Bilbao Vizcaya	7.25	•Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	•Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	•Hill Samuel	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	C. Hoare & Co	7.25		
Brit Bk of Mid East	7.25	Hongkong & Shanghai	7.25	• Members of London Investment Banking Association	
•Brown Shipley & Co Ltd	7.25	Investec Bank (UK) Ltd	7.25	* In administration	
Citibank NA	7.25	Julian Hodge Bank	7.25		
Clydesdale Bank	7.25	•Leopold Joseph & Sons	7.25		
The Co-operative Bank	7.25	Lloyds Bank	7.25		
Coutts & Co	7.25	Midland Bank	7.25		
Cyprus Popular Bank	7.25	NatWestminster	7.25		
Duncan Lawrie	7.25	•Rea Brothers	7.25		
		Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

Questions raised over need for fresh Opec cuts

By Gary Mead

Pressure is growing on the Organisation of Petroleum Exporting Countries to make fresh crude oil production cuts when oil ministers meet in Vienna on June 24. But some analysts are beginning to argue that such a move may be unnecessary.

A meeting last week in Damascus of the Organisation of the Arab Petroleum Exporting Countries (OAPEC) demonstrated growing dissatisfaction with current prices. Brent blend as quoted on the International Petroleum Exchange in London has lost some 30 per cent of its price since last November.

Yesterday July Brent was trading at $14.35 a barrel, 5 cents lower than the previous close.

"The mood in Damascus among the Arab oil producers was that $14 a barrel really won't do. I would expect that if the price does not look like moving to $17 there will be a lot of pressure within Opec to do something. I have never seen such a consensus before," said Robert Mabro, director of the Oxford Institute for Energy Studies.

However, according to one analyst, the cuts agreed by Opec and non-Opec members in March may be starting to bite, and a price recovery could be on the cards for the last quarter of this year.

Geoff Pyne, oil analyst with UBS in London, suggests that of the 11 oil-producing countries that agreed to a production cut of 1.245m b/d from April 1 until the end of 1998, most have stuck to the agreement, with only Indonesia in serious breach. There have been minor leakages from Venezuela and some of the smaller Opec producers.

Those countries that agreed to reduce output in March, in April produced 26.38m b/d, and in May 26.01m b/d, according to UBS data. "We estimate that there is still some 300,000-400,000 b/d being produced above the level agreed at Riyadh," says Mr Pyne. He projects a global oil surplus of 500,000 b/d during the second and third quarters of 1998, "which of course is having a depressing effect on prices".

But he argues that the Riyadh production cuts, if adhered to, should be enough to restore the price to $17 by the end of this year, and that any more cuts could be a mistake.

"There is production capacity of potentially another 400,000 b/d coming on the market in Algeria, Venezuela and elsewhere by the end of this year. Any more cuts will merely add to shut-in production. In the short term it could lead to higher prices, but in the longer term bottling-up this extra capacity will put the Riyadh agreement under considerable strain."

Mr Pyne argues that global growth in demand for crude oil of almost 2 per cent plus the onset of the northern hemisphere winter "should lead to the market being in balance" by the end of 1998.

Mr Mabro, author of a newly-published report on the current oil crisis*, also believes that there are grounds for optimism: "People are slightly surprised that the Riyadh agreement has been this successful, and that the promised cuts are being slowly implemented."

**The Oil Price Crisis of 1998: Robert Mabro, Oxford Institute for Energy Studies.*

Cocoa prices slip in thin volumes

MARKETS REPORT

By Gary Mead and Kenneth Gooding

Hopes by cocoa bulls that the market may be about to lift off were slightly dashed yesterday as the July future on the London International Financial Futures Exchange closed £15 lower at £1,141 a tonne.

Thin volumes – just 3,164 lots were traded – helped depress the market, but some specialists said the retreat was just a pause before a renewed push for higher prices.

World coffee production will fall to 90.55m 60kg bags in the 1997-98 production year, from 102.04m bags in 1996-97, according to latest estimates from the analyst F. O. Licht.

This is below anticipated world demand (of 100m-101m bags) and will mean a drawdown of both importer and exporter stocks. However, Licht adds that the decreased production is likely to be counter-balanced by an expected bumper Brazilian crop.

On Liffe the July coffee contract rose $75 to close at $1,995, recovering much of the ground lost last Friday.

On the London Metal Exchange speculative sales by investment funds forced down most prices.

Nickel was the worst hit, with the three-month price falling to the lowest for 4½ years, but tin, aided by severe supply tightness, was unscathed.

"The funds are hitting nickel and no-one is really willing to take them on," said a trader. Nickel lost 8 per cent of its value on the LME last week and yesterday the price fell by nearly 3 per cent from Friday's close, from $4,977.50 a tonne to $4,835.

China's youth takes a shine to platinum

By Kenneth Gooding, Mining Correspondent

China's "spoilt brat" generation, products of the government's insistence that each family has only one child, is proving a boon to platinum producers.

Sales of platinum jewellery in China nearly doubled last year, according to Johnson Matthey, the world's biggest platinum marketing group, as the metal became fashionable among young, wealthy, urban Chinese.

"These single children are doted on by their parents and grandparents. They are the first Chinese to enjoy prosperity and have plenty of spending power," said Alison Cowley, author of JM's annual market survey.

"These young consumers regard platinum jewellery as elegant and sophisticated in comparison with the simple, heavy gold items bought by their parents' generation."

Manufacturers have encouraged the trend because, unlike gold, platinum supply is not controlled by the central bank, and can be imported freely. This has enabled jewellers to expand quickly into platinum jewellery production.

Production of platinum jewellery also jumped by 75 per cent last year in the US. "The recent introduction of platinum jewellery by large retail chains and television shopping networks indicates it is now regarded as a mainstream jewellery metal in America," said Ms Cowley.

These trends helped global sales of platinum jewellery advance 9 per cent last year to 2.16m troy ounces, in spite of a fall in Japan coupled with the Asian crisis.

Total platinum demand was up 4.8 per cent to 5.2m ounces, while supply was stable at 4.97m, leaving a shortfall of 230,000 ounces.

JM forecasts that platinum demand will grow by 2-3 per cent this year and that prices will be volatile and range between US$370 and $450 an ounce for the rest of this year. In London yesterday the price was "fixed" at $405.

"Platinum 1998," free from Johnson Matthey, 40 Hatton Garden, London EC1N 8EE, UK. Email: platinum@matthey.com

Argentina seeks mining boost

Problems mar the region's prospects, reports **Ken Warn**

This was going to be the breakthrough year for mining in Argentina. With big projects coming on stream and a strong exploration effort, the industry looked set for rapid development after centuries of neglect.

The country is safer than its neighbours – geologists can travel to even the most remote areas without fear of kidnapping – and the potential of the mining sector has excited big companies.

But lower world metals prices, disputes over royalties and the after-effects of the Bre-X scandal have raised question marks over some projects.

There had been great hopes for the industry. The $1.2bn Bajo La Alumbrera copper and gold mine, the country's biggest mining project, went into production last year. The $200m-plus Cerro Vanguardia silver and gold mine in Santa Cruz province, owned by Anglo American and Argentina's Perez Companc conglomerate, is due to begin production this year.

However, feasibility studies for both projects were conducted with metals prices way above today's levels. Another project, the $900m El Pachon copper mine in San Luis province has been put on indefinite hold until prices recover. Official forecasts of mining exports of almost $800m this year and $1.8bn by 2000, against $30m in 1995, look likely to be disappointed.

Also, a row over royalties between Catamarca province and La Alumbrera's owners, Australia's MIM Holdings and North, and Canada's Rio Algom, has taken the shine off government claims to have created legal and fiscal stability for mining companies through a 1993 mining law.

Now, many "junior" mining companies, the smaller concerns which push forward exploration, have gone into world-wide hibernation.

Some, after descending on Argentina in 1994-95, have simply packed their bags and left. "Because there is little tradition of mining and a lack of expertise, the authorities just didn't realise that building up a mining industry takes time," said Francisco Azevedo, regional exploration manager of mining junior IAMGOLD.

The problems began even before the slide in metals prices last year. Last May's Bre-X scandal, in which a small Canadian mining company's claim to have found a 200m ounce gold deposit in Indonesia was unmasked as a hoax, sent junior mining companies' share prices sliding and dried up exploration finance.

Exploration, as well as shifting down several gears, is moving away from the remote – and hence expensive – Andean Cordillera. "There was an initial landrush. But now we will see a move to working more selectively, and in areas with better access and less extreme weather conditions," said Walter Lienhard, head of operations at mining junior Minera Andes.

Deep-pocketed multinationals are continuing their exploration efforts for both precious and base metals, although even they have made redundancies. Japanese geologists have been exploring 7m hectares in Mendoza, La Rioja and San Juan provinces, but it is still unclear if this effort will produce any viable projects.

Against this background, the Catamarca royalties row is all the more embarrassing for the government, which hopes to resolve the dispute to the satisfaction of mining companies. Under the federal mining law, companies pay a royalty of 3 per cent on the mine-head value of the mineral, taking into account processing and transport costs.

However, under Catamarca's provincial mining law, those costs cannot be offset, effectively doubling royalty payments. The province claims its mining law predates the federal regulations.

It is not the only provincial problem facing mining companies. Complaints over delays in processing claims are legion. Ancient pencil drawings of claim areas – when they can be found – are often unreliable.

A World Bank-financed programme which aims to put mineral rights maps and data on computer, and ease some of the administrative problems facing overburdened provincial authorities, has been welcomed by the industry.

But there are still grounds for optimism over Argentina's mining future. It has been much less thoroughly explored than neighbouring countries. "The geological environment is interesting and the operating environment much better than other places in the region," said Stephen Davey, head of exploration at Billiton.

The larger companies look like being in for the long haul. But big and small alike are hoping for a significant new discovery. Without a new, big find, the excitement the sector once lived through may soon drain away.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1333-4	1363-4
Previous	1352-53	1379-80
High/low		1369/1357
AM Official	1335-35.5	1364.5-65.0
Kerb close		1361-2
Open int.	276,328	
Total daily turnover	157,069	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1235-40	1255-7
Previous	1252-57	1270-75
High/low		1265/1245
AM Official	1233-35	1255-56
Kerb close		1243-8
Open int.	7,886	
Total daily turnover	2,869	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	531-2	547-8
Previous	532.5-33.5	548-49
High/low		549/545
AM Official	529.5-30.0	546-47
Kerb close		548-9
Open int.	36,542	
Total daily turnover	13,562	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4775-85	4860-70
Previous	4905-15	4990-95
High/low		4985/4830
AM Official	4765-70	4850-60
Kerb close		4850-60
Open int.	53,739	
Total daily turnover	23,050	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5870-75	5890-900
Previous	6010-20	5915-20
High/low		5940/5860
AM Official	6005-10	5920-25
Kerb close		5870-75
Open int.	18,945	
Total daily turnover	6,318	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1042.5-3.5	1069-70
Previous	1055-56	1080-81
High/low		1072/1064
AM Official	1039.5-40.0	1065-65.5
Kerb close		1066-7
Open int.	83,916	
Total daily turnover	27,073	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1650-51	1670-1
Previous	1737.5-38.5	1752-53
High/low		1733/1662
AM Official	1686-87	1701-02
Kerb close		1664-5
Open int.	176,210	
Total daily turnover	126,239	

■ LME AM Official £/$ rate: 1.6212
LME Closing £/$ rate: 1.6348

Spot: 1.6340 3 mths: 1.6171 6 mths: 1.6107 9 mths: 1.6053

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	73.20	-4.60	76.00	73.20	370	1,082
Jun	73.50	-4.65	76.30	73.50	238	3,343
Jul	73.75	-4.60	76.80	73.50	4,471	24,675
Aug	74.15	-4.30	77.00	74.30	75	1,903
Sep	74.50	-4.15	77.10	74.30	282	6,892
Oct	74.70	-3.80	77.50	77.25	18	1,564
Total					6,826	82,070

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	298.60-299.30		
Opening	298.50-298.80		
Morning fix	299.70	184.510	446.253
Afternoon fix	300.30	185.542	447.147
Day's High	301.10-301.40		
Day's Low	298.70-299.00		
Previous close	300.20-300.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.52 6 months 4.03
2 months ....4.41 12 months 3.79
3 months 4.27

Silver Fix	p/troy oz.	US cts equiv.
Spot	334.40	542.00
3 months	338.40	546.15
6 months	341.05	548.25
1 year	342.70	547.50

Gold Coins	$ price	£ equiv.
Krugerrand	299-303	184-186
Maple Leaf	-	-
New Sovereign	70-73	43-45

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	301.2	+2.2			-	-
Jun	301.9	+2.2	304.4	299.5	39,876	66,945
Aug	304.2	+2.3	306.1	301.9	2,350	14,873
Oct	306.3	+2.3	307.7	305.4	291	6,059
Dec	308.3	+2.3	309.7	306.4	588	18,491
Feb	310.0	+2.3	-	-	340	9,293
Total					34,702	158,254

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	404.9	+4.3	407.7	397.5	807	10,413
Oct	401.4	+4.3	403.5	399.0	71	1,096
Jan	397.4	+4.3	-	-	2	48
Apr	394.9	+4.3	-	-	2	13
Total					882	11,772

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	397.50	+27.25	402.00	370.00	309	2,589
Sep	324.60	+12.00	324.60	324.60	85	1,501
Dec	315.60	+12.00	315.60	315.00	60	326
Total					593	4,188

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	556.2	+1.2	564.0	561.0	47	269
Jul	557.2	+1.2	569.0	555.0	9,751	47,981
Sep	560.0	+1.0	571.0	559.0	175	6,514
Dec	561.0	+1.0	572.5	559.0	472	13,017
Jan	561.2	+1.0	-	-	-	16
Mar	560.9	+1.0	568.0	568.0	1	2,695
Total					10,982	78,318

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	14.05	-0.42	14.52	13.95	48,098	49,734
Jul	15.08	-0.24	15.38	15.03	68,387	104.3k
Aug	15.73	-0.09	15.89	15.65	16,355	53,347
Sep	16.12	-0.06	16.23	16.10	8,712	31,894
Oct	16.40	-0.03	16.50	16.35	4,159	22,371
Nov	16.53	-0.08	16.65	16.57	1,278	14,023
Total					155,435	480,188

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	14.34	-0.06	14.45	14.25	20,464	90,438
Aug	14.59	-0.06	14.66	14.52	8,029	35,771
Sep	14.83	-	14.89	14.80	1,704	17,234
Oct	15.06	-0.04	15.10	15.00	1,183	9,775
Nov	15.27	-0.05	15.30	15.26	324	10,725
Dec	15.43	-0.08	15.52	15.40	1,489	37,186
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	41.30	-0.34	41.90	41.00	11,654	38,815
Jul	42.25	-0.36	42.55	42.05	7,630	34,783
Aug	43.40	-0.26	43.65	43.20	2,311	13,342
Sep	44.70	-0.16	45.00	44.50	1,406	11,875
Oct	45.95	-0.06	46.20	45.85	282	9,768
Nov	47.10	-0.01	47.30	47.00	728	9,325
Total					26,888	178,466

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	128.00	-3.75	130.25	127.00	8,216	33,240
Jul	130.50	-3.75	132.00	130.00	2,397	13,666
Aug	133.75	-3.25	134.50	133.25	1,204	11,361
Sep	136.75	-3.50	137.75	136.25	523	11,598
Oct	139.75	-3.50	140.50	139.25	796	14,905
Nov	142.25	-3.50	143.25	142.00	403	8,545
Total					16,080	139,356

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	8.800	+0.40	8.800	8.740	170	1,370
Jul	8.560	-0.10	8.660	8.650	70	1,315
Total					1,325	18,380

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.145	-0.033	2.200	2.140	13,845	39,057
Jul	2.185	-0.038	2.245	2.170	4,899	30,911
Aug	2.240	-0.036	2.295	2.235	2,499	23,113
Sep	2.285	-0.023	2.335	2.275	1,498	16,630
Oct	2.330	-0.030	2.380	2.330	987	17,714
Nov	2.500	-	2.510	2.480	583	12,118
Total					29,626	268,922

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	50.05	-0.70	51.00	49.75	17,747	33,725
Jul	51.30	-0.67	52.10	51.10	9,884	29,922
Aug	52.00	-0.43	52.50	51.75	3,628	17,544
Sep	51.60	-0.43	52.05	51.50	1,842	13,631
Oct	50.85	-	50.90	50.65	214	4,345
Nov	50.30	-0.13	50.30	50.30	155	1,306
Total					33,868	166,691

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	75.60	-0.90	-	-	-	127
Jul	77.00	-0.75	77.00	76.75	104	1,539
Sep	78.00	-0.25	-	-	-	160
Nov	80.00	-0.25	80.10	79.80	30	3,138
Jan	82.00	-0.25	-	-	-	666
Total					134	6,237

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	294.50	+0.25	297.50	294.00	107	110
Jul	302.50	-	306.50	302.00	7,325	69,045
Sep	312.25	-0.50	316.50	312.00	1,453	16,951
Dec	327.75	-0.25	331.50	327.50	1,554	24,939
Mar	341.00	-0.50	344.00	340.50	808	4,976
Jul	352.00	-	-	-	125	346
Total					11,249	116,984

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	240.25	+1.00	242.00	239.25	1,633	1,338
Jul	247.00	+0.75	249.50	245.00	18,168	149,758
Sep	253.50	+0.25	256.00	252.25	1,474	40,182
Dec	259.50	+0.25	262.25	258.00	9,433	124,495
Mar	267.25	+0.50	270.00	266.25	335	11,743
May	272.00	+0.50	274.00	271.50	93	2,220
Total					31,509	339,284

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	76.00	-	-	-	-	53
Sep	75.00	-	-	-	-	21
Nov	77.00	-	-	-	-	824
Jan	79.00	-	-	-	-	182
Mar	81.00	-	-	-	-	41
Total						1,129

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	651.75	+4.00	655.00	646.00	1,152	2,846
Jul	644.00	+2.75	648.50	638.00	25,163	65,097
Aug	642.00	+2.75	645.50	636.50	2,770	16,043
Sep	629.00	+2.50	633.00	627.00	444	4,604
Nov	622.75	+1.25	628.00	619.25	7,592	48,326
Jan	630.00	+1.50	636.00	628.50	121	2,937
Total					37,368	142,281

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	28.15	+0.07	28.25	28.11	793	367
Jul	28.29	+0.04	28.53	28.15	21,108	83,557
Aug	28.39	-	28.59	28.36	6,363	21,668
Sep	28.45	+0.02	28.60	28.44	2,231	13,550
Oct	28.35	+0.02	28.47	28.35	424	7,777
Dec	28.13	-0.03	28.34	28.12	4,514	28,614
Total					35,828	159,807

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
May	156.5	+2.1	157.1	153.5	760	828
Jul	159.2	+1.0	160.8	157.1	10,711	82,471
Aug	160.5	+1.1	162.0	158.5	1,343	18,928
Sep	161.7	+1.3	162.7	159.8	594	14,177
Oct	161.7	+1.1	162.8	160.4	343	9,981
Dec	164.2	+0.8	165.5	162.8	3,199	24,229
Total					17,081	136,124

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	140.0	-	-	-	-	-
Nov	80.0	-	-	-	-	-
Mar	129.0	-4.5	-	-	-	-
Apr	179.0	-4.5	182.1	178.0	173	1,458
May	189.0	-4.5	-	-	-	-
Total					173	1,468

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
May	955	-	-	-	-	330
Jun	915	-	-	-	-	71
Jul	910	-	-	-	-	384
Oct	1000	-10	1000	1000	5	278
Jan	1040	-	-	-	-	133
Total					5	1,208

	Close	Prev
BFI	985	983

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	518.25	-3.25	521.00	517.25	23	464
Sep	539.50	-5.50	543.00	539.50	37	428
Total					67	886

FUTURES DATA
All futures data supplied by CMS.

Minor metals from Metal Bulletin
European free market, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.65%, $ per tonne, 1,470-1,530. Bismuth: min. 99.99%, tonne lots 3.65-3.85. Cadmium: min. 99.95%, cents a pound, 26.00-30.00. Cobalt: MB free market, min. 99.8%, 24.30-25.00 (24.50-25.00); min. 99.3%, 20.90-21.45 (20.80-21.30). Mercury: min. 99.99%, $ per 76 lb flask, 133-143. Molybdenum: drummed molybdic oxide, 3.95-4.10 (3.95-4.15). Selenium: min 99.5%, 1.55-2.30. Uranium: Nuexco unrestricted exchange value, 9.20. Vanadium: min. 98%, 5.60-5.75.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1125	-11	1144	1126	3	121
Jul	1141	-15	1162	1140	2,150	29,270
Sep	1161	-15	1182	1160	509	21,869
Dec	1178	-15	1199	1180	242	32,191
Mar	1185	-15	1214	1195	170	37,691
May	1207	-15	1225	1224	20	13,283
Total					3,164	149,799

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1715	-25	1745	1712	3,713	27,062
Sep	1733	-26	1758	1732	1,193	15,545
Dec	1757	-28	1782	1756	670	15,098
Mar	1783	-29	1797	1780	401	10,112
May	1799	-29	1807	1807	110	3,898
Jul	1817	-29	1831	1821	215	1,541
Total					6,437	81,893

■ COCOA (ICCO) (SDR's/tonne)

May 15	Price	Prev. day
Daily	1362.46	1359.40

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	2200	+85	2210	2155	127	2,530
Jul	1955	+75	1965	1920	1,695	23,732
Sep	1875	+80	1880	1845	494	8,130
Nov	1825	+80	1827	1795	38	2,477
Jan	1775	+80	-	-	-	205
Mar	1725	+80	-	-	-	357
Total					2,352	37,466

■ COFFEE "C" CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	128.75	+1.25	131.00	127.50	74	444
Jul	127.85	+2.10	128.25	126.50	4,797	16,799
Sep	125.50	+1.95	126.10	124.75	1,349	8,276
Dec	122.00	+1.65	122.50	121.25	382	7,153
Mar	118.75	+1.65	119.00	118.40	202	2,545
May	116.75	+1.65	116.50	116.50	85	1,064
Total					6,945	37,347

■ COFFEE (ICO) (US cents/pound)

May 15	Price	Prev. day
Comp. daily	113.14	116.73
15 day average	113.68	113.70

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	258.5	-3.5	262.0	258.5	742	16,924
Oct	258.1	-3.4	260.4	258.1	410	11,319
Dec	260.5	-3.1	261.3	260.5	27	2,018
Mar	265.1	-3.0	265.6	265.4	10	2,324
May	268.6	-2.5	-	-	-	636
Aug	272.4	-1.8	-	-	-	290
Total					1,189	33,531

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	8.95	-0.14	9.05	8.93	8,814	76,416
Oct	9.15	-0.15	9.24	9.16	2,857	52,012
Mar	9.61	-0.09	9.67	9.60	1,766	25,483
May	9.88	-0.09	9.89	9.89	64	3,977
Jul	9.72	-0.09	9.86	9.86	14	3,642
Oct	9.70	-0.11	9.85	9.85	91	4,046
Total					13,694	166,734

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	66.65	+0.37	66.99	66.05	4,737	30,932
Oct	69.43	+0.34	69.75	69.00	356	4,185
Dec	70.70	+0.34	71.00	70.25	2,468	33,081
Mar	72.03	+0.33	72.05	71.75	157	7,534
May	72.63	+0.33	72.45	72.25	68	3,357
Total					7,819	84,444

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	73.30	+0.33			39	2,238
Jul	109.15	-1.20	111.00	108.10	2,561	22,552
Sep	112.35	-1.05	113.90	111.50	372	6,443
Nov	114.40	-1.10	116.00	113.50	135	4,568
Jan	116.15	-1.25	116.00	116.00	30	2,070
Mar	118.55	-1.25	118.00	118.00	31	1,101

May120.95-1.25- - 27680

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

May 18	May 15	month ago	year ago
1627.60	1633.8	1645.0	2007.8

■ CRB Futures (Base: 1967 = 100)

May 15	May 14	month ago	year ago
221.96	223.79	-	-

■ GSCI Spot (Base: 1970 = 100)

May 14	May 14	month ago	year ago
164.41	164.41	165.87	199.87

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-2,125	to	532,750
Aluminium alloy	+640	to	61,580
Copper	-2,750	to	272,800
Lead	-100	to	107,375
Nickel	+66	to	64,422
Zinc	-875	to	447,225
Tin	-100	to	5,350

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	65.875	-0.725	66.675	65.800	6,433	36,264
Aug	67.225	-0.850	67.925	67.100	3,693	28,334
Oct	67.550	-0.875	68.200	67.375	1,242	14,923
Dec	68.650	-0.725	69.400	68.600	564	5,465
Feb	69.725	-0.700	70.425	69.600	133	2,089
Apr	70.950	-0.550	71.650	70.900	16	575
Total					12,079	87,681

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	62.650	+0.450	62.975	62.325	3,538	12,541
Jul	61.900	+0.175	62.125	61.625	2,497	9,389
Aug	58.250	-0.125	58.700	58.150	1,241	5,868
Oct	53.300	-0.100	53.500	53.100	124	3,998
Dec	53.150	-0.225	53.700	53.150	175	3,463
Feb	55.750	-0.325	56.100	55.700	80	834
Total					7,682	36,515

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
May	56.675	+0.850	57.000	55.000	205	592
Jul	53.950	+1.075	54.100	51.750	1,087	4,720
Aug	50.950	+0.900	51.600	49.000	218	1,291
Total					1,510	6,605

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1350	27	34	65	46
1400	11	67	42	72
1450	3	109	26	105
■ COPPER (Grade A) LME	Jun	Sep	Jun	Sep
1600	86	37	123	67
1700	38	86	76	118
1800	14	164	43	183
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1850	136	189	31	164
1900	104	171	49	186
1950	76	157	73	232
■ COCOA LIFFE	Jul	Sep	Jul	Sep
1125	41	70	25	34
1150	29	57	38	46
1175	20	47	54	61
■ BRENT CRUDE IPE	Jun	Jul	Jun	Jul
1450	48	-	-	66
1500	27	53	-	-
1550	-	37	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$12.69-2.87x	-0.375
Brent Blend (dated)	$14.74-4.78	+0.08
Brent Blend (Jul)	$14.37-4.41	-0.29
W.T.I.	$14.08-4.10x	-0.70

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$165-167	-2
Gas Oil	$126-127	-4
Heavy Fuel Oil	$66-68	
Naphtha	$137-139	-3
Jet fuel	$140-142	-5
Diesel	$132-133	-3

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	8.75-8.80

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

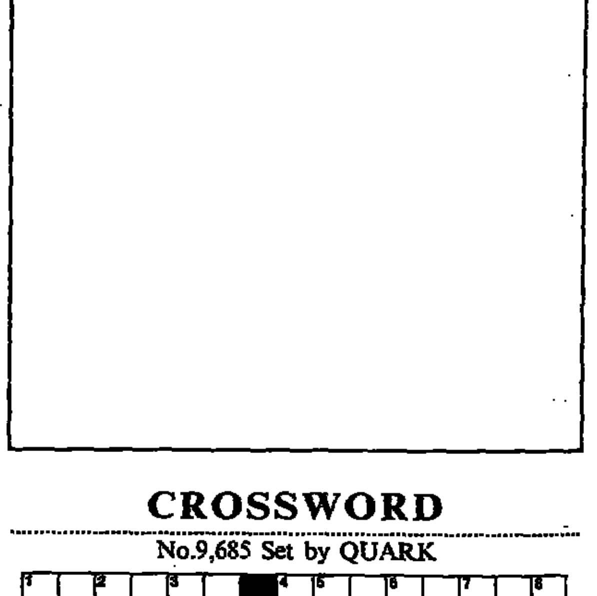
Gold (per troy oz)♣	$299.05	-1.40
Silver (per troy oz)♣	542.00c	-24.25
Platinum (per troy oz.)	$405.00	+2.00
Palladium (per troy oz.)	$417.00	+25.00
Copper	83.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	21.54r	
Tin (New York)	284.5	+5.00
Cattle (live weight)	81.21p	-2.82*
Sheep (live weight)	135.69p	+8.00*
Pigs (live weight)†	63.81p	-3.55*
Lon. day sugar (raw)	$230.00	-4.40
Lon. day sugar (wte)	$268.00	-3.90
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jun)▼	48.00p	
Rubber (Jul)▼	48.00p	
Rubber (KL RSS No1)	300.50m	+2.50
Coconut Oil (Phil)§	795.0y	
Palm Oil (Malay.)§	730.0	
Copra (Phil)§	$453.0y	
Soyabeans (US)	180.0	
Cotton Outlook'A' index	64.40	+0.20
Wooltops (64s Super)	384p	-3

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jun/Jul. x Jul. ▼London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 886 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,685 Set by QUARK



ACROSS

1, 4 An issue of some weight (6,8)
10 Odd demo alarm produces sensational behaviour (9)
11 Copying a high-pitched sound (5)
12 A dark period without end is close (4)
13 Side's rum sporting dedication? (4,6)
15 Croaking "Oh, Ratty" when in trouble? (7)
16 Supervise play, being outspoken (6)
19 Sort of acid account to call back (6)
21 Hypocrisy directed towards a musical composition (7)
23 Messages from the underground? (9)
25 Left in charge? Leave hurriedly! (4)
27 To make one tune I put in new arrangement (5)
28 The material for carving a flower at a research place (9)
29, 30 Boxing hazard? (8,6)

DOWN

1 Manufacture metal in a plate-like structure (8)
2 Claim mainly to duck most of food, is symbolic (9)
3 Man in a whirl (4)
5, 21 New TA ammo curbed, being out of order in this (7,6)
6 Boy scout in vocal performance running about playfully? (10)
7 Here in Europe a sign of hesitation. Showing less warmth? (5)
8 Deny agent travelling to the east (6)
9, 20 A drop of the hard stuff downed in interval in theatre? (6,7)
14 Wall with openings intended, we hear, to support conflict (10)
17 Fraud in the Health Service? (9)
18 Re English farce – comic, light-hearted (8)
20 See 9
21 See 5
22 Untidy one to scrape shoes? About right (6)
24 Book call for transport (5)
26 Party wallop (4)

Solution to Saturday's prize puzzle on Saturday May 30.
Solution to yesterday's prize puzzle on Monday June 1.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

Tilney (Ireland) Ltd
29/22 Lower Hatch Street, Dublin 2 00 3531 7905073

US Mid Cap F ... 5	515.1		–	45118

Frank Russell Investments (Ireland) Ltd

IRELAND (REGULATED)(**)

	Selling Price	Buying Price	Yield Gross	City-Line

ABN AMRO Global Liquidity Funds Plc (u)

AIB Fund Management Ltd

Frank Russell Investments - Contd.

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

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Bank Von Ernst & Cie AG

Frankfurt-Trust 1 (a)

GT Global

HSBC Investment Funds Luxembourg SA (u)

Barclays Diversified Portfolio (z)

Barclays Inv Funds (Luxembourg)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Bostrom		[illegible]	+3½	345	275	-	3.0	11.0
Daimler-Benz DM		[illegible]	[illegible]	[illegible]	[illegible]	-	0.8	-
Dennis		[illegible]	+1	[illegible]	[illegible]	16	3.5	14.9
First Technology		[illegible]	—	[illegible]	[illegible]	1	1.2	20.8
GKN		917	+12	[illegible]	[illegible]	987	1.8	23.4
Hembys		575	+1½	575	357	178	3.8	14.5
Honda Motor JPY		2071	−25½	[illegible]	1701	-	0.4	-
[illegible]		180		155	89½	-	5.4	11.6
Independent Parts		481	−1½	882	312½	134	3.1	12.2
Laird		[illegible]	−6½	288	180	1,349	2.1	16.0
LucasVarity		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Continued

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Airsprung		165½	−2	257½	132½	-	4.8	10.6
Alba		190	+1	248	165½	-	4.0	10.6
Allen		65	—	88	50	-	6.3	6.8
Alexandra Work		165½	—	[illegible]	77½	782	5.4	Φ
Allied Textile		[illegible]	—	[illegible]	[illegible]	0.250	7.0	9.9
Aquarius		[illegible]	—	[illegible]	[illegible]	-	8.1	Φ
Ampour Trust		[illegible]	−¼	[illegible]	[illegible]	-	4.1	55.9
BLP		[illegible]		205	138	-	5.7	6.8
Baird (Wm)		[illegible]	−3	[illegible]	165½	-219	5.2	12.9
Black Arrow		[illegible]		[illegible]	[illegible]	-	4.3	10.3
[illegible]		[illegible]	−1½	421½	[illegible]	17	2.1	19.1

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Continued

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£18¾	[illegible]	*£23¾	[illegible]	-	3.5	10.8
Barlow R	♦	[illegible]	[illegible]	[illegible]	[illegible]	-	2.7	14.2
Gold Flds Prop R		133	[illegible]	187	[illegible]	-	5.9	14.1
SA Breweries R		£19½	[illegible]	£23¾	[illegible]	-	2.1	♦
Standard Bank R		[illegible]	[illegible]	[illegible]	[illegible]	-	1.5	-
Tiger Oats		945	+15	1100	799	-	2.0	18.1
Tongaat-Hulett R		737½	+9½	780	563	-	2.3	15.9

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		[illegible]	___	£61200	£472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- , Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Yield based on	previous year's earnings.	M Yield based on
n Rights issue pending	rights issue.	yield, p/e based on
q Earnings based on	H Yield based on	prospectus or other
preliminary figures.	prospectus or other	official estimates.
s Dividend yield	official estimates for	W Pro forma figures.
excludes a special	1997	Z Dividend yield to date.
payment.	K Yield based on	
t Indicated dividend	prospectus or other	Abbreviations:
yield, p/e ratio based on	official estimates for	xd ex dividend;
latest annual earnings.	1998	xc ex scrip issue;
u Forecast, or estimated	L Estimated annualised	xr ex rights;
annualised dividend	yield, p/e based on	xa ex all;
yield, p/e based on	latest annual earnings.	xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion

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FT Company Focus / Focus Plus

Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998. However ShareFinder company reports, incorporating current and historic financial information, key performance data and consensus recommendations, may still be purchased by calling 0870 601 4600.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

US interest rate fears unsettle equity market

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

London, along with most other European markets, suffered from another bout of interest rate jitters yesterday, falling sharply ahead of today's meeting in Washington of the US Federal Reserve's open market committee.

Adding to the market's worries was another twitchy session in Asia, where the continuing problems in Jakarta, riven by riots in recent days, drove Indonesia's market down more than 4 per cent and affected Hong Kong, which slipped more than 1 per cent. On the positive side, Tokyo managed a minor improvement.

And Wall Street failed to come to the London market's rescue, with the Dow Jones Industrial Average slipping back again. Some market observers think it likely to fall below the 9,000 mark ahead of the FOMC meeting.

The FTSE 100 lost the 5,900 mark early on and, more worryingly, fell back through the 5,800 level in mid-afternoon when Wall Street was looking increasingly vulnerable.

But evidence of "cheap" buying interest from some of the big institutions enabled the FTSE 100 to scramble back above 5,800 to finish a difficult session 91.6 off at 5,826.2. At its worst, Footsie posted a 123.3 decline at 5,794.5.

Although uneasy about developments overseas, dealers insisted the London market's undertone remained reasonably sound, pointing to the resilient performance of the FTSE 250 and the latest good showing by the FTSE SmallCap index.

The latter shrugged aside the pessimistic stories encompassing the leaders and edged higher to new intra-day and closing records.

"You only have to look at the low turnover in the market today to see that it was more of a mark-down than a sell-off. It is a classic mark-down in front of an important economic event. I wouldn't be surprised to see us get back all and more of today's fall if the Fed leaves rates on hold," said one marketmaker.

He also pointed to the continuing spate of takeover news, some bullish, some bearish, right across the stock market.

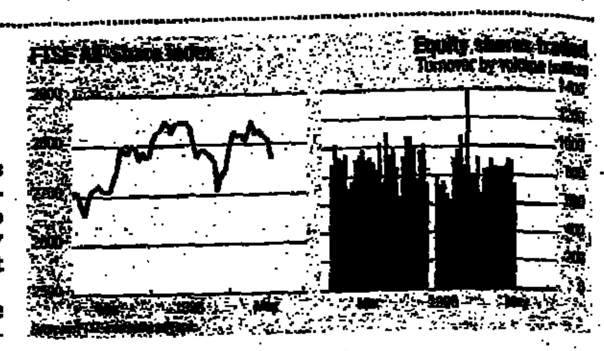
Most areas of the market were enlivened by takeover developments. The front-line stocks included numerous takeover stories, including the revelation that Asda, the supermarkets group, had held "collaboration discussions" with Kingfisher. Asda shares fell back, with specialists increasingly of the view that the group is on the acquisition trail, while Kingfisher made progress.

Other bid talk included Halifax and Royal Bank of Scotland, whose shares were among the best performers in the FTSE 100 after weekend reports that the two banks had held preliminary talks, although both shot down merger reports.

The FTSE 250 finished the day 5.3 easier at 5,792.5, having been down 10.8 at its worst not long into the morning session.

But there was no stopping the FTSE SmallCap which settled 2.3 higher at a record closing level of 2,751.5, after an intra-day peak of 2,752.3.

Turnover in equities was a lowly 739.7m shares, of which around 56 per cent was in non-Footsie stocks.



Indices and ratios

FTSE 100	5826.2	−91.6	FT 30	3831.4	−63.2
FTSE 250	5792.5	−5.3	FTSE Non-Fins p/e	23.29	23.59
FTSE 350	2836.7	−36.3	FTSE 100 Fut Jun	5824.0	−123.0
FTSE All-Share	2775.35	−33.06	10 yr Gilt yield	5.95	5.97
FTSE All-Share yield	2.83	2.76	Long gilt/equity yld ratio	2.13	2.15

Best performing sectors
1 Support Services +0.9
2 Retailers: General +0.4
3 Paper: Pckg & Printing +0.3
4 Construction +0.3
5 Distributors −0.0

Worst performing sectors
1 Pharmaceuticals −3.2
2 Oil: Integrated −2.5
3 Resources −2.4
4 Extractive Inds −2.3
5 Consumer Goods −2.2

Sterling rise hits Glaxo

COMPANIES REPORT

By Peter John and Martin Brice

Four-month figures from Glaxo Wellcome were broadly in line with broker forecasts, but they still made what one analyst described as "ugly reading" and helped to prompt a fall of 59 to £16.74 in the shares.

Paul Diggle of SG Securities said there was little in the numbers to cause surprise and he was maintaining his full-year estimate of £2.6bn.

Nevertheless, the 7 per cent sales slide in sterling terms to £2.56bn was slightly worse than some people had been expecting and there had been "a tiny bit of speculative run-off", said Mr Diggle.

However, the rest of the sector was also sold lower as dealers fretted about higher interest rates and the damaging effect of a potentially stronger pound. SmithKline Beecham dropped 28½ to 679½p – 4 per cent – on heavy turnover of 10m shares; Zeneca fell 47 to £24.84.

The reverse was true among the smaller biotech stocks, which responded to strong figures and a positive announcement.

Celltech lifted 6 to 377½p after posting interims that reflected a move into profit.

Meanwhile, Cantab Pharmaceuticals gained 20 to 710p in the wake of encouraging results from Phase I clinical trials of its vaccine for the treatment and prevention of genital herpes. The treatment is being developed jointly with Glaxo.

Oil stocks slipped as Brent crude, which had managed to peep briefly above a reassuring $15 a barrel level last week, ducked back down again.

BP, the major most sensitive to oil price shifts, fell 25½ to 938p while Shell Transport dropped 10½ to 444½p.

Among the exploration and production stocks, Enterprise released the long awaited news on its latest developments in the Gulf of Mexico, but failed to excite the market and the shares slid 16 to 588p.

Enterprise said there was a geological hitch which would lead to a four-week delay for data.

Pearson, the media conglomerate that owns the Financial Times, was the best performer in the FTSE 100 as the shares moved to a new peak.

The stock rose 81½ to £10.27½ after the company announced it would buy Simon & Schuster's education divisions from Viacom of the US for a net $3.6bn.

Pearson said the acquisition would "significantly enhance adjusted earnings in the first full year" and deliver annual cost savings of $130m by 2000.

Dresdner Kleinwort Benson was one of the brokers that responded positively to the deal.

Analyst Neil Carter said it was worth "over a pound a share on a discounted cash-flow basis". Kleinwort's media team has increased its recommendation from "add" to "buy".

Banking shares were in the doghouse with ABN Amro publishing a cautious note following Friday's news that the Office of Fair Trading was investigating Northern Rock's recently restructured savings accounts.

The broker believes that any decision on deposits could have implications for the rest of the banks, particularly mortgage lenders.

Lloyds TSB, which has a big mortgage exposure, fell 27½ to 893½p while Barclays dropped 49 to £16.74. Northern Rock fell 6½ to 548½p.

However, mortgage leader Halifax bounced 15½ to 792p on the back of weekend press stories suggesting talks with Royal Bank of Scotland – up 14 at 985½p.

British Energy held relatively steady with some support from Merrill Lynch, which upgraded its long-term stance on the stock from "reduce" to "neutral". The broker believes the dividend will be covered sooner rather than later. The shares dipped 1½ to 545p.

Asda talks

News that Asda, the supermarket giant, and Kingfisher, the Woolworth to B&Q DIY group, had held preliminary discussions, described as "collaboration" rather than merger talks, although now terminated, triggered activity in food and retailing.

Asda shares slipped 3 to 180½p on the news, with some dealers taking the view that the company seems determined to go on the acquisition trail. Kingfisher, meanwhile edged up 5 to £10.72.

Colt Telecom was the worst performer in the FTSE 250 as recent bid speculation in the stock started to evaporate following weekend press comment.

The shares lost 182½ to £19.02½ in small volume, as Dresdner Kleinwort Benson's FTSE 250 team highlighted the stock's 44.3 per cent outperformance of the FTSE All-Share last week.

Brewing stocks were a feature in a week that will include a series of results from the sector. Investors should gain a clear picture of the toughening competition.

Wolverhampton & Dudley saw its shares marked down in spite of serving up stronger-than-expected results.

The fall of 9 to 506p was attributed to the brewer saying second-half sales were behind expectations.

The bearish sentiment spread to Scottish & Newcastle, which suffered the biggest fall in the FTSE 100 as the stock declined 40 to 880p, although volume was minimal. Whitbread was also one of the poorer Footsie performers as the shares fell 28 to £10.

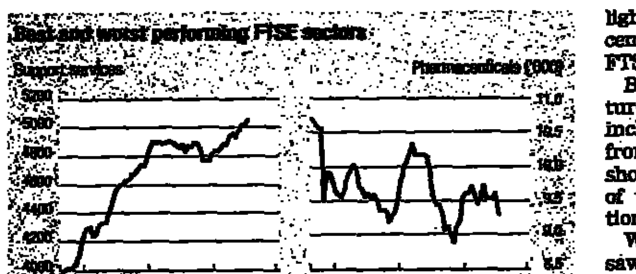
Christies International was the best performer in the FTSE 250 as the shares rose 75 or 24 per cent to 387½p on news of the agreed 396p bid from French group Artemis.

Rentokil Initial achieved one of the best performances in the FTSE 100 as the stock gained 9 to 392p, helped by a broker recommendation. Compass, the contract catering group, often mooted as a potential bid target for Rentokil, rose 28 to £11.15 ahead of interims due today.

BT Alex Brown has told clients: "Compass's recent entry into the FTSE 100 is proof of the market's belief that the shares warrant a substantial premium to the market. One slip-up would leave the shares looking very expensive."

Luminar, which was listed at 200p two years ago, gained 39 to 809p amid talk that brokers were focusing on the potential of its Chicago Rock Cafes to increase earnings next year.

Media group Lopex rose 6½ to 56p following a bullish trading statement.



FT 30 INDEX

	May 18	May 15	May 14	May 13	May 12	Yr ago	*High	*Low
FT 30	3831.4	3894.6	3902.5	3899.5	3896.7	2878.3	3920.3	3811.5
Ord. div. yield	2.88	2.80	2.80	2.88	2.81	3.69	4.22	2.79
P/E ratio net	23.90	25.31	25.31	25.29	25.23	18.81	26.41	15.80
P/E ratio nil	23.69	25.06	25.08	25.07	25.00	17.82	26.19	15.71

FT 30 since compilation: High 3920.3 11/05/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3894.5	3886.5	3824.9	3851.1	3840.2	3840.9	3834.3	3840.0	3821.0	3894.6	3811.5

STOCK MARKET TRADING DATA

	May 18	May 15	May 14	May 13	May 12	Yr ago
SEAQ bargains	68,059	59,732	63,104	63,063	62,102	48,374
Equity turnover (£m)†	-	2846.7	3352.6	2886.1	2940.6	2495.1
Equity bargains†	-	49,575	49,921	48,830	51,348	43,840
Shares traded (m)†	-	746.9	778.7	728.1	775.3	659.0
Total market bargains‡	-	60,774	62,902	62,838	61,646	-
Total turnover (£m)‡	-	3839.3	4580.5	3980.7	3917.1	-
Total shrs traded (m)‡	739.7*	953.0	1024.4	854.3	1006.8	-
Tradepoint turnover (£m)	27.9	18.2	35.8	25.2	25.6	0.6
Tradepoint shrs traded	7,779	8,189	8,049	8,122	7,160	100

†Excluding intra-market and overseas turnover but including Crest turnover. ‡UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	733	Total Highs	188	Total contracts	27,596
Total Falls	858	Total Lows	53	Calls	13,078
Same	1,407			Puts	14,518

May 18 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5895.0	5817.0	-105.0	5896.0	5814.5	23859	158398
Sep	5949.0	5892.0	-106.5	5951.0	5893.0	535	11081
Dec	5998.0	5975.0	-108.0	5998.0	5998.0	50	250

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5807.0	5814.0	+5.0	5814.0	5807.0	250	8381

FTSE 100 INDEX OPTION (LIFFE) (*5826) £10 per full index point

	5650 C	5650 P	5700 C	5700 P	5750 C	5750 P	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P
May	274	110½	235½	125½	200½	145½	170½	165½	140½	186	120½	212½	103	241	81	276½
Jun	340½	161½	330	177	280½	197	280½	218	231	240	202½	264	182	293½	160½	325½
Jul	423½	234½	394	233	364½	252	335	271½	305½	291½	278½	312½	252½	339½	231	367½
Aug	473½	285	446½	227	417½	250	389½	273½	362	298½	335	324½	309½	353	289	381
Dec†			695	394½			543	372½			477	413			421	461

Calls 1,965 Puts 3,112

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5625 C	5625 P	5675 C	5675 P	5725 C	5725 P	5775 C	5775 P	5825 C	5825 P	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P
May	280½	59½	255½	114½	222½	131½	192	150½	166½	173½	138	195½	114	221½	92	248
Jun	370	152½	336½	168½	304½	186	274	204½	245	225	217½	247	192	271	168½	297
Jul	452	204	417½	215½	384½	236½	353	255	322½	274½	294	298	266½	318½	241	343
Sep	469	235½			432	269			371	305½			316	348½		
Dec†	640	304½			577	337½			517	373			460½	412½		

Calls 2,244 Puts 7,576 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
–	F.P.	25.4	107½	93½	AB Airlines	95½	–2	–	–	–	–
*	F.P.	15.0	325	237½	†Ambishus Pub Co	240	–5	–	–	–	–
§	F.P.	–	104½	97½	Aberdeen Convble C	104½	+½	–	–	–	–
–	F.P.	–	62	58	Ascot B	61		–	–	–	–
–	F.P.	221.9	40	36	BTR Red Pf B	38		4.75	–	15.6	–
–	F.P.	21.9	98	87½	Baronsmead VCT 2	87½		–	–	–	–
4	F.P.	1.08	5¼	5	†Captain D.M. Watts	5¼	+¼	–	–	–	–
–	F.P.	0.85	1¼	1	†Do Warrants	1¼		–	–	–	–
–	F.P.	8.95	100	100	Close Bros AIM VCT	100		–	–	–	–
–	F.P.	82.8	178½	126½	†Desire Petroleum	174½	–1	–	–	–	–
§30	F.P.	16.0	32½	24	†Dimension Res	24		–	–	–	–
–	F.P.	–	8½	3½	†Do Warrants	8½		–	–	–	–
–	F.P.	18.5	20	18½	GRE Red Pf B	18½		–	–	–	–
§325	F.P.	20.9	365	330	†Inter-Alliance	365		–	–	–	–
§108	F.P.	22.6	127½	115½	JWE Telecom	116½	–4	W1.54	3.9	1.7	18.4
–	F.P.	138.9	94½	72½	Lonrho Africa	87		L2.3	4.2	3.3	8.6
–	F.P.	228.8	275½	272½	Mansion	274½	–1	L5.0	2.5	2.3	22.1
100	F.P.	38.0	97½	97½	Murray VCT 3	97½		–	–	–	–
–	F.P.	–	139½	138½	Taiwan IT-GDR	138½		–	–	–	–
§200	F.P.	–	243½	203½	Taylor & Francis	242½		–	2.4	–	20.8
§170	F.P.	1,965	200	191	Thomson Travel	195½		W2.8	2.0	1.8	23.8
–	F.P.	–	36½	34½	Transport Dev B	35½		–	–	–	–

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	May 15	% chg on day	May 14	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1240.37	+1.2	1225.86	1589.46	1.94	–	1589.46	891.22
Regional Indices								
Africa (14)	1342.57	+1.5	1323.16	1838.05	4.02	28.78	1838.05	821.78
Australasia (7)	1419.14	+2.3	1387.23	1801.01	2.36	20.31	1801.01	933.68
North America (11)	1194.61	+0.9	1184.14	1499.78	1.05	46.19	1574.16	894.88

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	May 18	Day's chge%	May 15	May 14	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5826.2	−1.5	5917.8	5948.5	4645.2	2.83	2.40	2.03	21.73	67.23	2544.65
FTSE 250	5792.5	−0.1	5797.8	5795.6	4510.4	2.84	2.39	2.03	21.67	55.67	2478.16
FTSE 250 ex IT	5852.4	—	5854.9	5850.6	4525.8	2.91	2.46	2.10	20.51	57.89	2513.35
FTSE 350	2836.7	−1.3	2873.0	2884.8	2251.5	2.88	2.39	2.03	21.72	31.65	2531.13
FTSE 350 ex IT	2839.2	−1.3	2876.1	2888.1	2251.7	2.85	2.41	2.04	21.47	31.99	1299.46
FTSE 350 Higher Yield	2782.6	−1.2	2817.4	2834.6	2194.3	3.81	3.24	1.94	16.87	39.42	2120.49
FTSE 350 Lower Yield	2901.9	−1.3	2939.7	2947.3	2313.9	2.10	1.76	2.15	27.89	25.32	2105.51
FTSE SmallCap	2751.54	+0.1	2749.15	2749.18	2311.45	2.78	2.25	1.81	27.88	22.86	2387.78
FTSE SmallCap ex IT	2754.85	+0.2	2748.92	2748.07	2308.44	2.98	2.40	1.67	25.22	23.83	2414.89
FTSE All-Share	2775.35	−1.2	2808.43	2819.21	2211.91	2.83	2.38	2.00	22.03	30.44	2513.02
FTSE All-Share ex IT	2779.66	−1.2	2813.43	2824.44	2211.82	2.88	2.41	2.02	21.65	30.90	1294.94

FTSE Actuaries Industry Sectors

	May 18	Day's chge%	May 15	May 14	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4862.83	−2.4	4982.87	5007.48	4288.69	3.13	2.71	1.72	23.24	74.18	2237.04
12 Extractive Industries(6)	3201.28	−2.3	3277.73	3288.02	4482.43	4.40	4.02	2.02	14.05	76.82	1010.39
15 Oil, Integrated(4)	5433.28	−2.5	5571.13	5604.30	4395.60	3.10	2.66	1.84	24.53	78.87	2570.91
16 Oil Exploration & Prod(12)	3420.93	−1.8	3484.00	3480.04	3630.23	1.67	1.38	2.00	37.43	31.12	2124.77
20 GEN INDUSTRIALS(220)	2401.21	−0.6	2415.93	2408.08	1927.04	3.15	2.75	2.17	18.32	27.86	1408.22
21 Construction(36)	1676.25	+0.3	1672.04	1667.98	1383.36	2.91	2.36	2.65	16.23	18.68	1494.50
22 Building Matls & Merchs(27)	2009.67	−0.1	2010.95	1999.68	1854.57	3.72	3.17	2.03	16.60	29.49	1094.17
23 Chemicals(24)	3128.23	−1.2	3165.53	3124.33	2330.38	3.02	2.82	1.79	23.16	41.83	1600.37
24 Diversified Industrials(10)	1500.09	−0.2	1503.70	1507.01	1388.01	3.61	3.40	2.40	14.42	20.65	921.65
25 Electronic & Elect Equip(25)	2734.81	−2.0	2791.92	2810.71	2059.78	3.16	2.55	1.62	24.45	21.48	1507.01
26 Engineering(62)	3245.93	−0.6	3264.15	3254.03	2499.69	2.86	2.54	2.43	17.96	36.49	2092.17
27 Engineering, Vehicles(10)	4496.53	−0.1	4500.55	4498.25	2775.77	2.79	2.62	2.36	19.04	39.42	2476.46
28 Paper, Pckg & Printing(23)	2479.24	+0.3	2470.71	2458.89	2201.17	4.11	3.45	2.22	13.66	29.85	1116.30
30 CONSUMER GOODS(92)	5685.95	−2.2	5815.60	5804.43	4499.09	2.57	2.30	1.84	26.42	73.36	2249.66
32 Alcoholic Beverages(6)	4089.66	−1.4	4149.63	4202.59	3187.46	2.85	2.82	1.87	23.42	67.92	1602.73
33 Food Producers(25)	4139.46	−1.4	4197.18	4193.96	2939.13	2.61	2.22	2.01	23.93	62.09	2006.30
34 Household Goods & Texts(24)	3484.95	−1.6	3539.97	3531.57	3024.40	3.15	2.61	2.19	18.10	46.45	1468.78
36 Health Care(14)	2360.11	−0.2	2364.58	2368.71	2208.41	2.14	1.93	2.39	24.46	15.80	1516.39
37 Pharmaceuticals(20)	9301.51	−3.2	9607.63	9519.76	7225.73	1.98	1.75	1.70	37.12	95.15	3326.92
38 Tobacco(3)	4774.12	−0.8	4812.92	4896.41	4661.62	5.38	4.75	1.75	13.27	121.61	1333.81
40 SERVICES(276)	3473.63	−0.4	3489.32	3489.66	2693.07	2.44	2.00	1.93	26.58	22.79	1905.72
41 Distributors(26)	2922.73	—	2923.06	2924.01	2739.09	3.27	2.70	2.00	19.14	33.42	1147.09
42 Leisure & Hotels(27)	4088.28	−0.4	4104.31	4053.77	3481.76	2.43	1.94	2.37	21.79	51.40	2315.34
43 Media(41)	4607.22	−0.4	4627.73	4626.72	4317.88	2.23	1.88	2.17	25.85	45.46	1743.80
44 Retailers, Food(13)	2896.18	−1.8	2949.96	2998.82	2139.95	3.07	2.46	2.12	19.19	36.16	1972.58
45 Retailers, General(49)	2414.03	+0.4	2404.09	2401.65	2081.79	3.02	2.44	2.04	20.24	12.62	1461.49
46 Telecommunications(10)	3834.63	−1.0	3871.98	3861.41	2298.09	2.27	1.88	1.39	39.75	4.04	1864.48
47 Breweries, Pubs & Rest.(24)	4230.78	−1.1	4279.83	4284.35	3308.55	2.83	2.26	2.35	18.78	30.19	2154.10
48 Support Services(52)	5051.90	+0.9	5008.69	5016.20	3068.69	1.18	1.00	2.56	41.30	25.20	3327.82
49 Transport(25)	3771.80	−0.4	3788.66	3786.64	2844.08	2.72	2.23	1.31	35.07	25.93	1675.86
60 UTILITIES(23)	3763.46	−0.8	3794.94	3803.41	2817.07	4.16	3.32	1.85	16.29	14.30	1778.53
62 Electricity(9)	4245.30	−0.5	4265.29	4278.40	3129.04	4.45	3.56	2.17	12.94	7.28	2449.30
64 Gas Distribution(2)	2895.40	−1.3	2922.45	2931.41	1744.48	2.26	1.81	‡	‡	26.03	1687.68
68 Water(12)	3222.70	−1.1	3259.63	3259.16	2586.82	5.30	4.24	2.20	10.72	10.26	1957.39
69 NON-FINANCIALS(636)	2824.77	−1.2	2858.71	2858.09	2223.80	2.80	2.38	1.91	23.29	27.76	2296.22
70 FINANCIALS(109)	5310.74	−1.2	5377.49	5467.14	4377.01	3.02	2.49	2.33	17.77	80.27	2456.30
71 Banks, Retail(12)	7602.75	−1.6	7724.36	7907.16	6612.57	3.11	2.49	2.32	17.31	126.41	2864.88
73 Insurance(17)	2455.81	−0.2	2460.75	2483.86	1804.38	3.61	3.26	2.64	13.09	36.48	2022.19
74 Life Assurance(8)	6783.01	−1.9	6858.46	6901.56	5136.95	2.76	2.38	2.60	17.39	108.92	3035.29
77 Other Financial(26)	5005.95	−1.1	5061.81	5074.99	3258.89	2.20	1.79	2.24	25.40	59.08	3051.43
79 Property(46)	2327.50	−0.5	2338.31	2337.58	1989.25	2.79	2.31	1.46	30.60	11.41	1519.52
80 INVESTMENT TRUSTS(115)	4032.98	−0.4	4049.98	4055.68	3380.10	1.98	1.60	1.18	53.48	24.92	1466.19
89 FTSE All-Share(860)	2775.35	−1.2	2808.43	2819.21	2211.91	2.83	2.38	2.00	22.03	30.44	2513.02
105 FTSE All-Share ex IT(745)	2779.66	−1.2	2813.43	2824.44	2211.82	2.88	2.41	2.02	21.65	30.90	1294.94
Information Technology	1621.22	+1.9	1590.30	1578.91	–	0.53	0.43	3.37	69.41	2.87	1624.66
FTSE Fledgling	1483.00	+0.4	1477.31	1473.91	1297.03	2.96	2.39	1.43	29.73	12.75	1839.85
FTSE Fledgling ex IT	1511.41	+0.5	1503.83	1499.80	1313.66	3.25	2.64	1.49	26.77	14.31	1877.74
FTSE AIM	1116.0	+0.7	1108.2	1108.2	1085.1	1.12	0.89	0.44	80.00†	3.58	1030.87

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	–	5843.3	5824.2	5868.0	5847.4	5849.0	5838.3	5847.9	5794.5	5917.6	5794.5
FTSE 250	–	5795.8	5787.0	5795.3	5796.1	5793.3	5794.9	5798.8	5792.1	5799.4	5787.0
FTSE 350	–	2843.7	2835.4	2853.3	2845.3	2845.9	2841.7	2845.6	2824.3	2873.0	2824.3
FTSE SmallCap	2751.68	2752.15	2751.56	2751.28	2750.94	2751.24	2751.50	2751.52	2751.73	2752.33	2750.75
FTSE All-Share	–	2781.79	2774.15	2790.54	2783.19	2783.73	2779.89	2783.49	2763.98	2808.63	2763.98

Time of FTSE 100 Day's high: 8:41:00 Day's low: 16:10:00. FTSE 100 1998 High: 6105.8 (06/04/98) Low: 5082.7 (12/01/98)
Time of FTSE All-Share Day's high: 8:41:00 Day's low: 16:10:00. FTSE All-Share 1998 High: 2947.10 (06/04/98) Low: 2590.32 (12/01/98)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	908	[illegible]	[illegible]
AMVESCAP	901	[illegible]	[illegible]
ASDA Group	6,100	[illegible]	[illegible]
Abbey National	2,200	[illegible]	[illegible]
Alliance & Leicester	1,200	[illegible]	[illegible]
Allied Domecq	1,700	[illegible]	[illegible]
Assoc. Brit. Foods	447	[illegible]	[illegible]
BAA	2,100	[illegible]	[illegible]
BAT Inds.	6,400	[illegible]	[illegible]
BOC	864	[illegible]	[illegible]
BG	3,500	[illegible]	[illegible]
BP	11,500	[illegible]	[illegible]
BSkyB	1,500	[illegible]	[illegible]
BT	11,200	[illegible]	[illegible]
BTR	4,200	[illegible]	[illegible]
Bank of Scotland	6,200	[illegible]	[illegible]
Barclays	2,400	[illegible]	[illegible]
Bass	712	[illegible]	[illegible]
Billiton	8,100	[illegible]	[illegible]
Blue Circle	3,800	[illegible]	[illegible]
Boots	847	[illegible]	[illegible]
Brit. Aerospace	4,200	[illegible]	[illegible]
British Airways	3,800	[illegible]	[illegible]
British Energy	1,400	[illegible]	[illegible]
British Land	738	[illegible]	[illegible]
British Steel	2,900	[illegible]	[illegible]
Cable & Wireless	4,800	[illegible]	[illegible]
Cadbury Schweppes	2,300	[illegible]	[illegible]
Carlton Comms.	845	[illegible]	[illegible]
Centrica	7,500	[illegible]	[illegible]
Comm. Union	594	[illegible]	[illegible]
Compass	781	[illegible]	[illegible]
Diageo	4,400	[illegible]	[illegible]
EMI	2,000	[illegible]	[illegible]
Energy Group	2,800	[illegible]	[illegible]
Enterprise Oil	2,080	[illegible]	[illegible]
Foreign & Col. I T	232	[illegible]	[illegible]
Gen. Accident	782	[illegible]	[illegible]
General Electric	4,500	[illegible]	[illegible]
Glaxo Wellcome	3,800	[illegible]	[illegible]
Granada	1,000	[illegible]	[illegible]
GUS	1,100	[illegible]	[illegible]
GRE	1,600	[illegible]	[illegible]
GKN	907	[illegible]	[illegible]
HSBC (75p shs)	3,000	[illegible]	[illegible]
HSBC (HK$10)	1,800	[illegible]	[illegible]
Halifax	7,100	[illegible]	[illegible]
Hays	377	[illegible]	[illegible]
ICI	1,200	[illegible]	[illegible]
Kingfisher	1,700	[illegible]	[illegible]
Ladbroke	8,700	[illegible]	[illegible]
Land Securities	847	[illegible]	[illegible]
Legal & General	3,100	[illegible]	[illegible]
Lloyds TSB	11,000	[illegible]	[illegible]
LASMO	3,100	[illegible]	[illegible]
LucasVarity	1,300	[illegible]	[illegible]
Marks & Spencer	5,700	[illegible]	[illegible]
Mepc	430	[illegible]	[illegible]
NatWest Bank	11,000	[illegible]	[illegible]
National Grid	4,400	[illegible]	[illegible]
National Power	2,100	[illegible]	[illegible]
Next	1,700	[illegible]	[illegible]
Northern Rock	2,800	[illegible]	[illegible]
Norwich Union	6,500	[illegible]	[illegible]
Nycomed Amersham	157	[illegible]	[illegible]
Nycomed Amer NV	5	[illegible]	[illegible]
Orange	666	[illegible]	[illegible]
Pearson	6,200	[illegible]	[illegible]
P & O	615	[illegible]	[illegible]
PowerGen	1,200	[illegible]	[illegible]
Provident Financial†	169	[illegible]	[illegible]
Prudential	6,400	[illegible]	[illegible]
RMC	675	[illegible]	[illegible]
Railtrack	2,300	[illegible]	[illegible]
Rank Group	736	[illegible]	[illegible]
Reckitt & Colman	361	[illegible]	[illegible]
Reed Intl.	3,600	[illegible]	[illegible]
Rentokil Initial	5,100	[illegible]	[illegible]
Reuters	5,300	[illegible]	[illegible]
Rio Tinto	2,400	[illegible]	[illegible]
Rolls Royce	2,800	[illegible]	[illegible]
Royal & Sun Alliance	3,700	[illegible]	[illegible]
Royal Bank Scotland	8,300	[illegible]	[illegible]
Safeway	2,300	[illegible]	[illegible]
Sainsbury	1,700	[illegible]	[illegible]
Schroders	192	[illegible]	[illegible]
Schroders NV	30	[illegible]	[illegible]
Scottish & Newcastle	547	[illegible]	[illegible]
Scottish Power	1,000	[illegible]	[illegible]
Severn Trent	218	[illegible]	[illegible]
Shell Transport	8,800	[illegible]	[illegible]
Siebe	782	[illegible]	[illegible]
SmithKline Beecham	10,200	[illegible]	[illegible]
Smiths Inds.	1,300	[illegible]	[illegible]
Southern Electricity	316	[illegible]	[illegible]
Standard Chartered	2,800	[illegible]	[illegible]
Sun Life & Provincial	684	[illegible]	[illegible]
TI Group†	783	[illegible]	[illegible]
Tesco	5,500	[illegible]	[illegible]
Thames Water	388	[illegible]	[illegible]
Tomkins	409	[illegible]	[illegible]
Unilever	4,300	[illegible]	[illegible]
Utd. News & Media	2,400	[illegible]	[illegible]
United Utilities	773	[illegible]	[illegible]
Vodafone	10,800	[illegible]	[illegible]
Whitbread	458	[illegible]	[illegible]
Williams	3,800	[illegible]	[illegible]
Wolseley	1,300	[illegible]	[illegible]
Woolwich	5,300	[illegible]	[illegible]
Zeneca	712	[illegible]	[illegible]

Based on trading volume for the FTSE 100 constituent companies [illegible] yesterday until 4.30pm. † Indicates a FTSE 100 index reserve. [illegible] rounded. Source: [illegible], part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 18 / Sch)

BELGIUM/LUXEMBOURG (May 18 / Frs)

CZECH REP (May 18 / Koruna)

DENMARK (May 18 / Kr)

FINLAND (May 18 / Mkk)

FRANCE (May 18 / Frs)

GERMANY (May 18 / Dm.)

GREECE (May 18 / Drachma)

ITALY (May 18 / Lira)

NETHERLANDS (May 18 / Fls.)

NORWAY (May 18 / Kroner)

POLAND (May 18 / Zloty)

PORTUGAL (May 18 / Escudo)

SPAIN (May 18 / Pts.)

SWEDEN (May 18 / Kronor)

SWITZERLAND (May 18 / Frs.)

TURKEY (May 18 / Tk Lira)

PACIFIC

JAPAN (May 18 / Yen)

HONG KONG (May 18 / H.K.$)

INDONESIA (May 18 / Rupiah)

MALAYSIA (May 18 / MYR)

NEW ZEALAND (May 18 / NZ $)

SINGAPORE (May 18 / S$)

AUSTRALIA (May 18 / Aust$)

SOUTH KOREA (May 18 / Won)

TAIWAN (May 18 / TW $)

THAILAND (May 18 / Baht)

AMERICAS

CANADA

TORONTO (May 15 / Can $) closed May 18

MONTREAL (May 15 / Can $) closed May 18

MEXICO (May 18 / Peso) 12:30 pm

AFRICA

SOUTH AFRICA (May 18 / Rand)

		+/-	High	Low	Yld	P/E
Rembrt	10	+.05	17.25	6	3.8	15.0
SAPPI	29	-.35	49.50	18	...	15.5
SASOL	48.40	+.40	68.50	35.80	3.0	11.5
Saffren	9.75	-.25	12.50	7.70	4.4	9.9
Samnacr	24.50	-.50	48.75	19.80	2.9	11.4
SmithFd	77.40	+.30	86	55	2.8	12.8
SouthGG	25	-.30	36.80	16.80	2.5	14.6
SABrew	157	-.20	175	107.20	2.1	23.9
SLife	63.10	...	72.60	29	3.4	23.6
Stlwd	106.60	-1.40	119	58.50	0.7	11.5
St Hel	14	...	23.80	10.75	...	3.7
StandB	29	+.25	32.80	17.60	1.7	18.3
TigOat	78.20	-.80	83.75	50	2.0	18.0
TngHul	61.40	+.40	62	43.50	3.0	10.7
W Area	25.60	-.85	44	18	1.6	25.3
W Deep	142	+1	146.40	70	5.5	18.3
Wolhtn	14.05	+.05	30	14	3.0	14.0

Prices supplied by Extel, part of FT information.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Prices in US $

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FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 15 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MAY 14 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	201.97	-0.1	183.76	171.18	187.05	214.07	0.0	3.68	202.08	183.71	171.24	188.78	214.11	243.87	190.28	230.25
Austria (23)	239.82	-0.1	218.21	203.26	222.11	221.98	0.1	1.48	239.97	218.16	203.35	221.81	221.68	242.41	181.60	190.84
Belgium (26)	339.05	0.2	308.49	287.36	314.00	307.34	0.4	2.35	338.21	307.47	286.60	312.61	306.10	339.05	234.33	248.96
Brazil (26)	237.58	1.3	216.17	201.38	220.03	501.48	1.3	1.97	234.48	213.17	198.70	216.73	495.00	322.44	184.94	251.98
Canada (120)	243.92	0.0	221.94	206.73	225.90	256.22	0.1	1.57	243.96	221.79	206.74	225.50	255.85	248.78	199.10	200.57
Denmark (34)	490.49	-1.2	446.28	415.71	454.26	452.59	-1.0	1.34	496.25	451.15	420.52	458.68	457.10	521.81	375.32	384.32
Finland (28)	436.63	-1.3	397.27	370.06	404.37	496.07	-1.1	1.84	442.27	402.08	374.79	408.80	501.46	451.12	267.45	269.36
France (79)	317.62	-0.7	288.99	269.19	294.16	297.69	-0.5	1.98	319.75	290.69	270.96	295.55	299.09	319.93	213.42	231.12
Germany (58)	290.33	0.2	264.16	246.06	268.88	268.88	0.4	1.22	289.67	263.35	245.47	267.75	267.75	290.93	204.89	210.77
Greece (37)	277.74	-1.1	252.71	235.40	257.22	613.54	-1.0	1.51	280.92	255.39	238.05	259.65	619.52	298.79	264.68	-
Hong Kong, China (66)	288.14	-0.5	262.17	244.21	266.85	286.63	-0.5	5.55	289.56	263.25	245.38	267.65	288.00	580.03	262.93	497.73
Indonesia (27)	32.09	5.9	29.20	27.20	29.72	213.10	0.5	3.32	30.31	27.55	25.68	28.01	211.97	254.90	27.67	225.39
Ireland (16)	541.76	-0.1	492.92	459.16	501.74	539.32	-0.1	1.80	542.24	492.96	459.49	501.19	539.56	560.44	336.68	349.44
Italy (54)	165.46	-0.3	150.55	140.23	153.24	217.05	-0.1	1.29	166.01	150.92	140.67	153.44	217.31	177.15	86.93	90.76
Japan (480)	94.01	-0.1	85.54	79.68	87.07	79.68	-0.1	0.99	94.12	85.56	79.76	86.99	79.76	141.12	88.52	131.34
Malaysia (107)	165.98	1.8	151.03	140.68	153.73	238.34	0.9	2.90	163.03	148.21	138.15	150.69	237.18	541.84	113.56	510.10
Mexico (29)	1585.75	0.7	1442.81	1343.98	1468.60	14760.47	0.9	1.62	1574.14	1431.08	1333.94	1454.98	14633.48	1901.98	1395.63	1395.63
Netherlands (19)	510.76	-0.1	464.72	432.88	473.02	468.03	0.1	1.97	511.10	464.85	433.11	472.41	467.33	521.95	368.99	371.84
New Zealand (14)	69.14	-0.3	62.91	58.60	64.03	68.51	-0.6	4.77	69.34	63.04	58.76	64.09	68.95	96.47	69.14	87.94
Norway (38)	335.65	-1.9	305.40	284.48	310.86	341.02	-1.5	1.84	342.29	311.18	290.06	316.38	346.30	374.64	281.62	301.48
Philippines (22)	90.82	-0.4	82.63	76.97	84.11	179.91	0.2	1.15	91.19	82.90	77.28	84.29	179.51	173.10	57.54	157.23
Portugal (18)	278.86	0.7	253.72	236.34	258.26	348.35	0.9	1.08	276.99	251.82	234.72	256.02	345.34	299.39	276.99	-
Singapore (42)	183.06	2.9	166.56	155.15	169.54	138.44	1.9	2.17	177.98	161.80	150.82	164.51	135.89	401.75	144.01	389.45
South Africa (43)	316.41	0.7	287.89	268.17	293.04	351.53	0.6	2.58	314.27	285.70	266.31	290.48	349.28	364.24	227.66	359.96
Spain (31)	375.62	-0.1	341.77	318.35	347.87	430.19	0.0	1.78	376.08	341.90	318.69	347.61	430.21	396.69	236.28	249.21
Sweden (49)	595.36	0.1	541.69	504.59	551.38	682.06	0.7	1.71	594.77	540.71	504.01	549.75	677.51	612.15	439.98	454.06
Switzerland (30)	402.87	-0.6	366.56	341.45	373.11	369.90	-0.5	1.09	405.13	368.31	343.31	374.46	371.77	410.80	285.85	289.77
Thailand (39)	23.23	1.6	21.14	19.69	21.52	35.06	1.9	8.00	22.86	20.78	19.37	21.13	34.38	69.09	13.10	60.15
United Kingdom (208)	380.21	-0.5	345.94	322.24	352.12	345.94	-0.4	2.84	382.16	347.43	323.85	353.23	347.43	401.84	293.10	302.78
USA (635)	453.08	-0.8	412.24	384.00	419.61	453.08	-0.8	1.42	456.52	415.03	386.86	421.96	456.52	462.18	335.79	340.47
Americas (810)	410.21	-0.7	373.23	347.68	379.90	346.69	-0.7	1.43	413.05	375.51	350.03	381.79	349.07	418.95	307.27	311.13
Europe (748)	356.29	-0.3	324.17	301.97	329.97	337.33	-0.2	1.99	357.51	325.02	302.95	330.44	337.94	363.50	256.75	262.67
Eurobloc (352)	102.10	-0.2	104.40	102.89	102.22	102.25	0.0	1.66	102.28	104.50	103.06	102.20	102.24	103.10	100.00	-
Nordic (149)	519.59	-0.5	472.75	440.37	481.20	522.84	-0.1	1.69	522.23	474.77	442.54	482.70	523.23	538.56	386.48	390.11
Pacific Basin (869)	102.32	-0.1	93.09	86.72	94.76	87.43	-0.1	1.70	102.38	93.06	86.74	94.61	87.49	158.99	95.32	149.00
Euro-Pacific (1617)	208.18	-0.3	189.41	176.44	192.80	181.60	-0.1	1.91	208.71	189.75	176.87	192.92	181.87	216.04	172.03	196.41
North America (755)	439.77	-0.7	400.13	372.72	407.29	439.88	-0.7	1.43	442.97	402.71	375.38	409.44	443.05	448.61	327.60	331.86
Europe Ex. UK (540)	332.48	-0.3	302.51	281.79	307.92	322.81	-0.1	1.57	333.34	303.05	282.48	308.11	323.00	336.80	230.16	235.35
Europe Ex. Eurobloc (396)	98.20	-0.5	100.41	98.96	98.32	99.59	-0.4	2.33	98.70	100.84	99.45	98.62	99.97	100.97	98.20	-
Europe Ex. UK Ex. Eurobloc (188)	101.23	-0.5	103.51	102.02	101.35	101.02	-0.3	1.32	101.73	103.94	102.51	101.65	101.30	103.67	100.00	-
Pacific Ex. Japan (389)	180.14	0.2	163.90	152.67	166.83	184.07	0.0	4.27	179.80	163.46	152.37	166.19	184.04	318.98	161.31	301.76
World Ex. Eurobloc (2118)	98.35	-0.6	89.48	83.35	91.08	98.83	-0.5	1.65	98.89	89.90	83.80	91.40	99.35	100.18	97.97	-
World Ex. US (1835)	212.06	-0.2	192.94	179.73	196.39	189.01	-0.1	1.90	212.50	193.18	180.07	196.41	189.20	220.18	175.30	199.50
World Ex. UK (2262)	281.15	-0.5	255.81	238.29	260.38	257.17	-0.4	1.51	282.52	256.85	239.41	261.14	258.30	287.02	234.24	238.72
World Ex. Japan (1990)	386.76	-0.5	351.90	327.79	358.19	380.59	-0.5	1.73	388.82	353.48	329.49	359.39	382.40	394.38	300.22	302.21
The World Index (2470)	289.57	-0.5	263.47	245.42	268.18	265.20	-0.4	1.65	290.99	264.54	246.58	268.96	266.36	296.57	241.30	244.18

Emerging markets: IFC investable indices

Dollar terms

May 15 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	1,067.91	+0.9	-4.3
Brazil	478.39	-1.3	-2.5
Chile	563.44	-1.1	-12.3
Colombia[1]	605.84	-1.2	-26.7
Mexico	691.98	+0.6	-12.2
Peru[2]	216.02	-0.9	-2.4
Venezuela[3]	678.57	+1.2	-25.8
East Asia			
China[4]	42.92	+4.4	-32.5
Korea[5]	28.07	-3.7	+16.8
Philippines	129.53	-0.5	+14.9
Taiwan, China[6]	137.45	-0.2	-2.6
South Asia			
India[7]	84.99	-1.3	+2.0
Indonesia[8]	18.43	+5.9	-51.2
Malaysia	91.74	+1.9	+0.6
Pakistan[9]	188.55	+1.4	-24.1
Sri Lanka[10]	123.28	-1.8	+6.0
Thailand	61.20	-0.8	+20.1
Europe/Mideast/Africa			
Czech Rep	58.55	-0.1	+3.3
Egypt	84.78		-8.1
Greece	508.16	-1.6	+56.2
Hungary[11]	332.13	-4.0	-5.5
Israel	129.73		-8.6
Jordan	230.78	-0.1	-9.8
Morocco	188.87		+29.1
Poland[12]	795.14	-0.5	+29.2
Portugal	210.34	-0.9	-47.0
Russia	97.23	-2.9	-34.6
S Africa[13]	222.95	+0.6	+24.8
Slovakia	89.82	-4.6	-25.8
Turkey[14]	296.38	-2.4	-5.1
Zimbabwe[15]	223.72	+1.1	-11.1
Regions			
Composite	246.12	-0.2	
Latin America	617.10	+0.5	-8.9
Asia	104.50	+0.4	-3.0
EMEA	166.63	-0.2	+12.8
Europe	208.39	-0.8	+6.7
E. Europe	115.18	-0.7	-18.8
ME & Africa	95.57	+0.5	+18.5

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jun 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10)Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

4 pm close May 18

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 15	May 14	May 13	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9096.00	9172.23	9211.84	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	104.70	104.84	104.78	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3424.73	3459.81	3442.92	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	279.92	279.11	280.43	291.18 (2/4)	262.66 (9/1)	291.18 (2/4/98)	16.53 (8/7/32)

DJ Ind. Day's high 9240.74 (9266.89) Low 9051.91 (9077.07) (Theoretical¶) Day's high 9186.18 (9221.59) Low 9080.52 (9113.84) (Actual¶)

Standard and Poors	May 15	May 14	May 13	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1108.73	1117.37	1118.86	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials♥	1294.66	1308.20	1308.20	1311.46 (22/4)	1077.40 (9/1)	1311.46 (22/4/98)	3.52 (30/6/32)
Financial♥	133.60	133.22	133.69	140.63 (14/4)	110.65 (9/1)	140.63 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp	574.40	578.31	578.20	585.62 (22/4)	487.47 (9/1)	585.62 (22/4/98)	4.64 (25/4/42)
Amex Comp	737.09	741.38	742.99	753.67 (22/4)	646.41 (12/1)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Comp	1846.77	1865.36	1868.18	1917.61 (22/4)	1503.22 (9/1)	1917.61 (22/4/98)	54.87 (3/10/74)
Russell 2000	472.44	475.55	477.48	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

■ RATIOS

	May 15	May 8	May 1	Year ago
Dow Jones Ind. Div. Yield	1.56	1.56	1.54	1.71
	May 13	May 6	Apr 29	Year ago
S & P Ind. Div. yield	1.30	1.33	1.35	1.72
S & P Ind. P/E ratio	31.08	30.66	30.29	23.33

US DATA

■ MARKET ACTIVITY

● Volume (million)	May 15	May 14	May 13
NYSE	621.990	578.380	602.450
Amex	25.059	24.180	27.598
NASDAQ	771.041	752.077	790.885

NYSE	May 15	May 14	May 13
Issues Traded	3,472	3,519	3,618
Rises	1,104	1,233	1,495
Falls	1,746	1,691	1,523
Unchanged	622	595	598
New Highs	65	80	86
New Lows	47	42	47

■ NYSE TRADING ACTIVITY — Volume : 621,990,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	10,805,100	30⅛	-1¼
PhilMorr	9,295,900	35⅜	-1⅛
UnionTexas	7,287,800	27⅜	-1⅜
Cendant	7,086,500	24⅛	-1⅛
Owensll	7,042,700	43⅞	+2½
MicroTech	5,898,800	26⅝	-2⅛
HewPac	5,875,500	69⅛	-¾
Pepsico	5,091,100	37⅝	-1⅛
IBM	5,013,200	124⅝	-⅞
Pfizer	4,862,900	104⅝	-3⅝

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
PecoEn	26⅝	+2⅝	+11.1
TotalSyst	23⅛	+1¼	+5.7
Owensll	43⅞	+2½	+4.9
Univ Hlth	20⅜	+⅞	+4.7
Downs			
WSemi	17⅛	-3⅛	-15.5
AdvMk	22⅝	-2⅞	-11.4
MicroTech	26⅝	-2⅛	-7.5
Barry(RG)	14⅛	-1⅛	-7.0

■ NASDAQ TRADING ACTIVITY — Volume :771,041,000

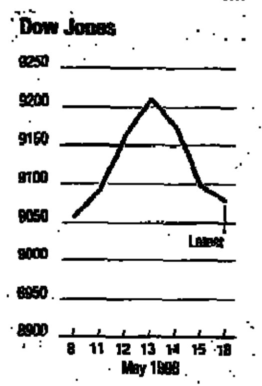
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
DellComp	31,438,600	90	-5¼
Intel	24,523,700	80⅛	-4¼
MicsoR	11,832,900	88⅛	+½
WrldCm	9,487,700	43⅛	+⅛
MCI Cm	8,534,900	50⅝	+⅛
CiscoSys	6,846,100	76⅝	+⅛
AppMat	5,806,200	37	-1⅛
Oracle	5,147,200	25⅝	-⅝
3Com	5,035,800	30	-⅛
Adaptec	4,861,800	16⅛	-¾

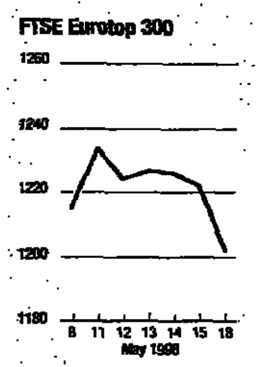
■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Odetics A	13⅞	+1⅛	+11.7
IntlDairyW	60¼	+5⅛	+9.5
Good Guys	13½	+1⅛	+9.1
NTL Inc	47⅛	+3¾	+8.8
Downs			
COR Terptc	16⅝	-1⅞	-10.0
GalileoTch	27⅜	-2⅞	-9.3
Tel-Save	21⅝	-2⅛	-8.7
Printronl	14⅛	-1⅛	-8.1

Dow Jones



FTSE Eurotop 300



JAPAN

	May 18	May 15	May 14	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15384.47	15242.86	15307.69	17264.34	14664.44	38915.9	85.25

Day's high: 15406.00. Day's low 15089.80.

■ TOKYO TRADING ACTIVITY — Volume : 323,000,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Nissan Mtr	10,805,000	458	+13
Np Steel Cp	6,972,000	215	-2
Mazda Mtr	4,596,000	433	+30
Sumo Chem	4,368,000	323	+14
Hitachi	3,760,000	1000	+21
Toray Inds	3,594,000	677	-38
Sumo Mtl Ind	3,451,000	225	+4
Sumo Bk	3,386,000	1280	+24
Mitsbl Elc	3,231,000	336	-3
Sakura Bk	3,219,000	409	-3

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Pokka Cp	748	+98	+15.1
Shinwa Bk	313	+33	+11.8
Daiichi Chuo	100	+10	+11.1
Kyodo Shiryo	144	+14	+10.8
Downs			
Katakura Chs	180	-30	-14.3
Fuji & Co	136	-19	-12.3
Tky Electron	4650	-560	-10.8
Kimura Chem	178	-20	-10.1

FRANCE

	May 18	May 15	May 14	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3945.31	3990.23	4011.98	4018.76	2862.54	4018.76	984.61

Day's high: 3976.57. Day's low 3933.77.

■ PARIS TRADING ACTIVITY — Volume : 416,998,860

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
France Tel	3,166,992	318.5	-0.5
Elf Aqui	3,098,909	864.0	-10.0
Total B	1,416,680	769.0	-23.0
Paribas	1,347,819	618.0	-2.0
Danone	1,325,033	1506.0	-4.0
Lyonn Eaux	1,113,394	1014.0	-45.0
Rhone-Poul	1,066,821	298.4	-8.8
Usinor	630,984	98.0	+0.3
Bqe Nt Paris	577,500	499.5	-16.5
AXA-UAP	573,810	682.0	-8.0

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Damart	4575.0	+683.0	+17.9
Mag Gn Paris	2300.0	+300.0	+15.0
Bq Petroligaz	43.85	+3.95	+9.9
GTMH	78.0	+7.0	+9.7
Downs			
Locindus	109.0	-11.5	-9.5
FIPP	214.2	-20.8	-8.9
Beneteau	818.0	-51.0	-5.9
Fonciere Cie	873.0	-51.0	-5.5

GERMANY

	May 18	May 15	May 14	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5342.85	5393.14	5361.22	5442.00	4087.28	5442	931.18

Day's high: 5389.96. Day's low 5342.85.

■ FRANKFURT TRADING ACTIVITY — Volume : 14,335,018

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Deutsche Tel	778,665	48.8	+0.6
Hoechsts	767,755	81.75	+2.63
Daimler-Benz	485,850	190.7	-1.5
Bayer	474,364	78.75	-1.9
BASF	425,100	80.6	+0.7
Siemens	396,990	117.8	-1.35
Veba	363,229	116.5	-2.3
Fag Kugel	347,004	31.0	+0.75
Commerzbank	311,291	69.1	-0.85
Dresdner Bak	304,449	100.0	-2.7

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Strabag NV	167.0	+28.5	+20.6
Berlin Elec NV	41.8	+4.3	+11.5
Alstron	744.0	+69.0	+10.2
Kamps	51.0	+4.7	+10.2
Singulus Tch	206.0	+17.2	+9.1
Downs			
VBH Hldg	34.5	-4.0	-10.4
Glunz	80.0	-5.0	-5.9
MAN NV Pf	510.0	-28.0	-5.2

UK

	May 18	May 15	May 14	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5836.2	5917.8	5948.5	6105.80	5068.00	6105.8	986.9

Day's high: 5917.8. Day's low 5794.5

■ LONDON TRADING ACTIVITY — Volume : 739,700,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Thomson Trvl	19,598,440	195½	-2½
Vodafone	15,449,910	650	-8
Br Petroleum	11,537,740	938	-25½
NatWest	11,532,240	1128	-15
Br Telecom	11,217,330	637	-8
Lloyds TSB	11,029,770	833½	-27½
SmithKline	10,228,720	679½	-28½
Shell T&T	9,187,229	444½	-10½
Norwich Un	8,532,802	425½	-5½
Pearson	8,158,577	1027½	+81½

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Christie Int	387½	+75	+24.0
Clinical Cmp	91½	+17½	+23.7
CPL Aromas	116	+21½	+22.8
Majestic Wn	507½	+92½	+22.3
Int Pub Rel	55	+9¾	+21.6
Cradon Land	10	+1½	+17.7
Downs			
Waverley Mng	16½	-3	-15.4
Coms Coal	3¼	-½	-13.3

INDEX FUTURES

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	1110.90	1112.40	-7.00	1113.20	1107.80	98,132	335,435
Sep	-	1124.60	-7.00	-	1123.00	5,385	17,950
■ Nikkei 225							
Jun	15210.0	15390.0	+160.0	15400.0	15030.0	48,555	200,047
Sep	15300.0	15370.0	+80.0	15390.0	15050.0	369	13,005

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	3931.0	3897.0	-63.0	3938.0	3931.0	311	36,754
Jun	3974.0	3976.5	-	3952.0	3911.0	-	20,586
■ DAX							
Jun	5351.5	5344.0	-65.0	5392.0	5338.5	19,307	123,648
Sep	5401.5	5390.0	-69.0	5425.0	5387.0	97	17,704

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	756.00	752.50	-6.75	758.50	752.00	17,495	73,858
Jun	757.75	756.00	-7.75	762.00	755.50	11,971	77,720
■ SOFFEX							
Jun	7454.8	7335.0	-146.0	7465.0	7328.0	4,044	20,133
Jul	7428.3	7348.0	-172.7	7428.3	7347.3	54	2,692

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	May 18	May 15	May 14	1998 High	1998 Low	Yield	P/E
Argentina	General	22025.49	22463.14	22314.12	23485.47 23/3	18237.40 2/1	2.9	19.5
Australia	All Ordinaries	2733.3	2765.8	2759.4	2881.40 16/4	2542.40 12/1	3.3	20.1
	All Mining	644.2	653.0	645.6	713.10 23/4	552.29 13/1		
Coca-Cola Amatil, the leading Coke bottler in Indonesia, fell 4.4 per cent. Telstra rose against the market.								
Austria	Credit Aktien	(u)	567.69	(u)	567.69 15/5	437.44 13/1	1.5	18.0
	ATX Index	1573.93	1584.02	1565.61	1599.58 11/5	1245.69 13/1		
Pushed higher thanks to strong performance by VA Tech and RHI.								
Belgium	BEL20	3107.50	3116.93	3106.67	3144.24 22/4	2367.78 10/1	1.9	20.1
SGB jumped almost 10 per cent and Generale Bank 5.2 per cent.								
Brazil	Bovespa	10379.0	10906.0	10734.0	12299.00 15/4	9118.60 9/1	na	na
Worries about US interest rates sent shares lower in early trading.								
Canada	TSE 100	(c)	468.34	468.32	475.28 15/4	380.03 12/1	1.5	23.2
	Metals Mins	(c)	3953.21	3989.62	4390.01 10/3	3442.35 12/1		
	Composite	(c)	7684.00	7677.86	7822.39 22/4	6299.56 12/1		
	Portfolio§§	(c)	3869.13	3875.67	3947.87 15/4	3294.41 12/1		
Chile	IGPA Gen♥	4361.23	4376.76	4405.44	4861.95 17/3	4263.47 27/1	2.8	14.6
China	Shanghai B	48.86	50.82	47.20	59.58 10/2	40.89 12/1	0.8	41.4
	Shenzhen B	91.61	90.75	83.21	98.97 10/2	77.98 12/1		
Failure of government to confirm market boosting steps and fears of new B share supply pulled Shanghai B shares back.								
Colombia	IBB	(u)	1199.84	1210.83	1431.46 7/1	1138.31 19/3	na	na
Czech Republic	PX 50	471.7	481.6	483.9	517.30 23/3	452.48 4/2	na	na
Fell in thin volume. CEZ fell almost 5 per cent.								
Denmark	CopenhagenSE	726.77	725.56	735.38	778.94 7/4	667.98 12/1	1.3	23.2
Gained ground as polls suggested Emu referendum would show a resounding yes vote.								
Egypt	Cairo SE Gen	381.72	(c)	381.86	393.19 21/4	345.40 2/2	na	na
Finland	HEX General	4852.58	4919.38	4944.23	5028.04 11/5	3228.43 12/1	2.0	17.8
Nokia, hit by US tech woes, dragged shares lower.								
France	SBF 250	2568.43	2583.10	2591.82	2594.11 13/5	1873.18 12/1	2.3	19.0
	CAC 40	3945.31	3990.23	4011.98	4018.76 13/5	2862.54 12/1		
Asian worries and US rate concerns hit the heavyweight banking sector.								
Germany	FAZ Aktien	1726.86	1729.35	1722.53	1744.78 14/4	1334.15 12/1	1.3	22.4
	Commerzbank	5117.40	5113.90	5093.00	5156.70 20/4	3928.29 12/1		
	DAX‡	5342.85	5393.14	5361.22	5442.00 20/4	4087.28 12/1		
MAN fell 5.2 per cent as overall market eased lower.								
Greece	Athens SE	2500.44	2469.84	2494.70	2634.54 5/5	1380.13 29/1	1.7	24.8
	FTSE/ASE 20	1496.82	1480.11	1501.78	1601.83 5/5	755.18 29/1		
Good performance by OTE Telecom sent shares higher.								
Hong Kong	Hang Seng	9411.97	9538.39	9591.95	11810.83 25/3	8121.86 12/1	4.2	10.0
	HSCC Red Chip	1244.70	1258.24	1270.74	1775.80 27/2	964.59 12/1		
Drifted lower ahead of local unemployment data in paltry turnover of HK$3.86bn.								
Hungary	Bux	7829.73	8139.63	7927.86	8016.36 23/4	7280.79 12/1	na	na
Losers outpaced gainer by 29 to 9 as shares streamed lower.								
India	BSE Sens.	3908.48	3849.80	3897.94	4280.96 21/4	3209.55 29/1		
	Crisil 500	745.85	730.22	738.90	815.62 21/4	594.38 29/1	na	na
Shares shrugged off limited profit-taking to close higher.								
Indonesia	Jakarta Comp.	398.92	405.94	403.70	554.19 2/2	342.97 9/1	2.4	14.1
Index pulled back from intra-day low of 384 after parliamentary speaker called on President Suharto to resign.								
Ireland	ISEQ Overall	5251.25	5300.33	5301.42	5471.81 21/4	4054.76 2/1	1.7	19.7
Israel	Tel Aviv 100	322.32	(c)	323.55	323.91 13/5	263.12 11/2	na	na
Italy	BCI Comit 30	333.28	345.82	345.15	380.53 6/4	254.84 2/1	1.2	31.3
	Banca Com Ital	1468.56	1509.58	1505.19	1654.38 7/4	1072.35 2/1		
	Mibtel General	23153.0	23878.0	23844.0	26377.00 6/4	17206.00 2/1		
Shares ended at session lows. Alitalia jumped 6.3 per cent.								
Japan	Nikkei 225	15384.47	15242.86	15307.69	17264.34 2/3	14664.44 12/1	0.9	41.0
	Nikkei 300	239.57	238.84	238.98	257.43 10/2	224.85 12/1		
	Topix	1309.17	1305.93	1308.11	1380.39 10/2	1120.61 12/1		
	2nd Section	1292.82	1294.31	1295.84	1401.27 12/2	1173.76 14/1		
Swung back from early lows in spite of weak yen and forever declining bond yields. Volume was thin and falls beat rises.								
Jordan	Amman SE	182.03	(c)	(c)	182.03 18/5	164.54 30/1	na	na
Malaysia	KLSE Comp.	549.99	566.85	560.50	745.36 27/2	477.57 12/1	2.9	12.6
Slid on thin volumes with the ringgit as regional political uncertainties continued to take their toll.								
Mexico	IPC	4676.30	4786.18	4739.18	5204.00 2/1	4477.69 29/1	1.2	13.6
Shares fell in early trading								
Morocco	CASA	836.76	833.35	(c)	836.76 18/5	666.57 21/1	na	na
Netherlands	CBS TRtnGen	1345.9	1362.8	1358.9	1378.80 4/5	1045.20 12/1	1.7	25.2
	CBS All Shr	762.5	772.0	770.3	788.20 6/4	599.20 12/1		
Weak International led broad market lower. KLM climbed ahead of results tomorrow.								
New Zealand	Cap. 40	2220.42	2229.15	2236.33	2350.02 20/3	2197.61 23/1	4.1	18.1
Asian concerns left shared drifting lower in very thin volumes.								
Nigeria	SE All-Share	6089.71	6065.14	6078.10	6504.87 11/2	2236.40 12/1	na	na
Norway	Oslo SE Ind	2277.68	2302.34	2311.16	2370.69 4/5	1898.91 12/1	1.5	18.0
US interest rates worries sent shares lower.								
Pakistan	Karachi SE	1374.33	1426.16	1412.35	1746.31 2/1	1374.33 18/5	na	na
Fears that Pakistan might conduct a nuclear test sent shares to a 16-month low. Hub Power fell a further 8.6 per cent.								
Peru	Lima Gen	1818.05	1832.20	1852.74	1903.91 4/5	1552.60 25/2	na	na
Philippines	Manila Comp	2125.41	2128.60	2130.00	2311.42 25/3	1518.08 9/1	1.2	14.8
Drifted lower in thin volumes as investors watched developments in Indonesia.								
Poland	WIG	16871.1	16965.0	17055.9	18582.70 11/3	13228.80 12/1	1.2	14.2
Shares fell with losers beating gainers by 29 to 5.								
Portugal	BVL 30	5563.75	5572.15	5542.26	6176.89 22/4	3878.27 2/1	1.5	41.1
	PSI 20	12733.67	12790.78	12709.70	14292.99 22/4	9091.84 2/1		
Shares finished weak, but off their lows, as analysts said that international trends likely to continue to set tone.								
Russia	RTS	227.61	258.10	263.66	411.61 5/1	227.61 18/5	na	na
Panic selling on fears of a rouble devaluation sent market plunging.								
Singapore	SES All-S'pore	344.78	354.10	349.34	437.98 19/3	324.92 12/1	2.4	15.0
	Straits Times	1291.74	1322.03	1301.78	1598.76 19/3	1073.47 12/1		
Declines beat advances by 8 to 1 with Indonesian woes continuing to overshadow the market.								
Slovakia	SAX	119.77	121.96	126.65	182.48 5/1	18.02 13/5	na	na
Losses in oil refiner Slovnaft sent market down to fourth consecutive record low								
South Africa	JSE All Share	8079.4♥	8071.7	8019.3	8358.70 20/4	5568.08 12/1		
	JSE Gold	1036.8♥	1041.8	1022.9	1101.50 24/4	872.80 18/3	2.4	14.9
	JSE Indl.	9812.3♥	9802.8	9772.9	9942.70 20/4	6715.10 12/1		
Share prices flat with investors' attention focussed firmly on today's FOMC meeting.								
South Korea	KoreaCmpEx**	359.00	352.83	362.94	574.35 2/3	351.86 12/5	1.4	16.2
Retail investors bought ahead of the removal of foreign ownership ceiling later this month. Foreigners were net sellers.								
Spain	Madrid SE	855.71	857.74	858.12	938.83 6/4	645.14 12/1	1.8	27.7
Endesa outperformed on the first day of its final privatisation with rise of 1.1 per cent.								
Sri Lanka	CSE All Share	746.60	742.10	754.80	789.70 4/5	655.90 26/1	na	na
Selling eased after last weeks volatility.								
Sweden	AffarsvarldsGen	3665.8	3701.7†	3679.6	3780.09 15/4	2853.18 12/1	1.8	22.5
Weakness in telecoms group Ericsson echoed losses in New York and dragged engineering industry down 1.7 per cent.								
Switzerland	SMI Index	7371.4	7519.4	7550.6	7827.70 6/4	6882.18 12/1	1.0	30.6
	SPI General	4669.49	4748.85	4765.72	4847.32 6/4	3781.36 12/1	na	na
Concerns that US interest rates could soon head higher after today's FOMC meeting sent market lower.								
Taiwan	WeightedPr.**	8134.89	8167.50	8193.50	9277.09 2/3	7375.14 12/1	1.2	23.2
Aggressive support for financials - up 3.4 per cent - drove index back up from intra-day low of 8,024								
Thailand	Bangkok SET	357.21	369.43	368.82	558.92 3/2	339.17 12/1	2.8	28.5
Overshadowed by fears that further financial institutions might be closed. Financial sector fell 12.7 per cent.								
Turkey	IMKB Nat 100	3970.24	4137.00	4229.99	4365.77 22/4	2777.06 10/2	2.0	22.7
Heavy selling by foreign investors dominated market amid concerns about Asian crisis.								
Venezuela	IBC	6710.23	6925.86	6791.27	7858.92 23/3	5975.13 4/5	na	na
Zimbabwe	ZSE Industrial	(u)	6706.77	6585.30	8795.71 31/3	6596.30 12/5	na	na
Share prices ticked up in quiet trade, apparently unaffected by further turmoil in the country's foreign exchange market								
WORLD	FT/S&P World(S)	(u)	289.57	290.99	298.57 15/4	243.98 9/1	na	na
	MS Capital Intl$	1053.7	1074.2*	1079.5	1094.80 15/4	888.50 12/1	na	na
CROSS-BORDER	DJ Stoxx 50	3231.71	3291.24	3298.97	3395.00 6/4	2574.91 12/1		
	DJ Euro Stx 50	3253.33	3304.69	3305.41	3345.86 8/4	2488.61 12/1		
	FTSE E300	1201.99	1222.34	1225.00	1263.63 6/4	971.93 12/1		
	FTSE E100	2758.78	2812.32	2817.55	2928.66 6/4	2238.40 12/1	na	na
	HSBC JC Drgn	(u)	221.01	221.14	273.91 26/3	189.25 12/1	na	na
	ING Bngs Emrg	(u)	145.14	145.46	180.08 22/4	125.19 12/1	na	na

** Sat May 16: Taiwan Weighted Price 8068.16, Korea Comp Ex 352.32. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ XETRA-DAX after-hours index: May 18 5343.69 -70.85. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ¶ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. Yields and P/E ratios are based on Datastream Total Market Indices. Mcintosh.

THE NASDAQ STOCK MARKET

4 pm close May 18

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close May 18

Stock	Div.	P/E	Vol 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

[illegible]

STOCK MARKETS

Russia suffers in international fit of nerves

WORLD OVERVIEW

Russia was the prime casualty on stock markets yesterday as investors continued to be nervous about high-risk markets in the light of the recent Asian crisis, writes Philip Coggan.

The RTS index fell 11.8 per cent on the day, with trading suspended at one point, amid fears that the rouble might be devalued. The Russian market fell almost 15 per cent last week.

Markets worldwide had a number of negative factors to overcome with the continuing Indonesian crisis, the antitrust case against Microsoft and today's meeting of the US Federal Reserve's open market committee.

Most analysts expect the Fed to leave rates where they are, but press speculation about a move towards a "bias to tighten" has fuelled uncertainty. And some economists remain convinced that inflation is a threat in the US, in spite of the recent benign data.

"If this were an episode of *Lost in Space*, the robot would be saying 'Danger, Will Robinson, Danger'," said the team at Nikko Europe.

The Indonesia stock market continued to take a pounding, although trading was light given the recent chaos in Jakarta. The rest of Asia was mixed; Indonesia's neighbours Malaysia and Singapore were sharply lower, but there was a modest rally in Japan.

Europe struggled to make progress in the face of Asian and US developments and most of the leading markets were 1-1.5 per cent lower. Even the latest restructuring in the banking sector, centred in Belgium, failed to lift spirits, with financial stocks suffering over concerns about their Asian exposure.

However, Europe continues to hold relative attractions for international investors. According to the information company IBES, 10 countries have had net positive 1998 earnings estimate revisions over the past month – all are in Europe.

Earnings growth across the globe over the next 12 months is expected to be a healthy 22 per cent.

In spite of that robust forecast, the world's forward price-earnings ratio is 21.8, the highest recorded since IBES started collecting data outside North America in 1987.

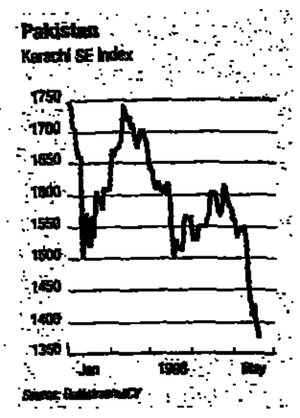
In the US, analysts have cut their earnings expectations for the third month in a row, with the stock market staying robust, the forward p/e ratio reached a new post-second world war high of 22.1. IBES adds that the gap between the 12-month forward p/e and the inverse of the 10-year US government bond yield is only exceeded by the overvaluation in the summer of 1987.

EMERGING MARKET FOCUS

Karachi awaits bomb decision

Pakistan's sliding stock market continued on its downward path yesterday, on worries over the outlook for the economy if a decision to go ahead with a nuclear test brought US-backed sanctions. The KSE-100 index dropped another 51.83 or 3.63 per cent to 1,374.33.

Share prices have fallen more than 11 per cent since last Monday's nuclear tests by India resulted in heightened tension across south Asia.



Many analysts say the immediate concern is that foreign investors will pull out of the market at the first sign of US sanctions. As with India, the US administration is bound by law to block IMF loans to any country that tests a bomb.

To some extent, the market's weakness is a consequence of widespread pessimism over the government's handling of the country's Independent Power Projects. Nawaz Sharif, the prime minister, has ordered investigations into the financial affairs of the 19 IPPs.

Businessmen say the campaign is meant to harass the private power companies, forcing them to cut what the government says are exorbitant tariffs.

In the past week, however, analysts say that anxieties over the IPP issue have subsided, but the respite will be only temporary at best. Once the anxieties over the nuclear issue subside, many analysts expect the IPPs to re-emerge.

"The market is soft right now," said Iqbal Hasan, chief executive of Karachi's UBS-Global securities brokerage. "It will continue to slide until conditions settle down, though it may not plummet. Any upside potential will probably be seen as a selling opportunity."

Yesterday's falls were widely seen to have been triggered by a weekend statement from Gauhar Ayub Khan, the foreign minister, who was quoted as saying it was not a question of "if" but "when" Pakistan detonated a nuclear device.

"Gauhar Ayub's statement has hurt the sentiment immediately," said Ali Jamil, senior analyst at Karachi's Jehangir Siddiqui brokerage. "The market is directionless and will remain so until this situation becomes clear."

Businessmen have increasingly urged the government not to respond in kind to India, cautioning that the impact on the economy of US sanctions would be harsh. Pakistan's foreign exchange reserves of $1bn, compared with India's $30bn, are said to be in no shape to deal with a flight of capital such as withdrawals from foreign currency accounts at local banks.

There are deposits of almost $10bn in these accounts, far in excess of the government's capacity to make repayments. Almost half the deposits are understood to be held in collateral against rupee loans, many of which do not mature for another year.

But even the remaining $5bn could become an unbearable liability. Analysts say the government may consider imposing emergency measures, such as a freeze on the bank deposits, to prevent a run.

Farhan Bokhari

Dow dips on interest rate uncertainty

AMERICAS

US shares fell ahead of today's Federal open market committee meeting on interest rate policy, writes John Labate in New York.

Also weighed down by a series of negative domestic and international factors, the Dow Jones Industrial Average was off 38.61 at 9,057.39 by early afternoon. The Standard & Poor's 500 index fell 3.88 to 1,104.85, and the Nasdaq composite was 13.57 lower at 1,833.20.

Although opinions have shifted in recent months, with a growing number of analysts expecting the Federal Reserve to raise interest rates in the near term, many expect the Fed will stay its hand at today's meeting.

Amid uncertainties in Asia and before the announcement of a widely expected lawsuit by regulators against Microsoft, the market drifted down, but trading was said to be directionless.

"The biggest factor is that the market's been in a correction consolidation for almost three weeks," said Alfred Goldman, chief market strategist at A.G. Edwards in St Louis.

Microsoft tumbled $3 7/16 to $86 ahead of a planned press conference by the software producer. The rest of the computer-related sectors were more mixed. IBM rose $1/16 to $125 5/16, while Dell Computer advanced $2⅞ to $92⅞ ahead of its quarterly earnings release. Cisco Systems was $1 5/16 higher at $77 15/16 but the Pacific Stock Exchange's technology index was down 1.00 to 350.01.

Hewlett-Packard continued to pull back, down $2 5/16 to $67. HP led the Dow lower, but other shares were weaker as well, especially stocks among cyclical sectors. Aluminum Company of America lost $11/16 to $73 13/16 and Union Carbide $1 to $53 11/16.

US Treasuries pushed higher, sending the benchmark 30-year bond up ⅜ to 102 31/32 and the yield down to 5.929 per cent.

In the banking sector, Citicorp climbed $1¼ to $154¼ after an earnings report from the group's Malaysian unit. In the health sector, producers of cancer-fighting drugs reaped huge gains. Entremed rose $4½ or 13.6 per cent to $37½, while Genentech gained $2¼ to $72¼.

Alitalia finds lift in spite of Milan's falls

EUROPE

Early weakness on Wall Street and continuing tensions in Asia contributed to a weak performance in MILAN, where the index was also weighed down after 80 stocks went ex-dividend.

The real-time Mibtel index fell 825 or 3.4 per cent to 23,153 with shares trading ex-dividend accounting for about 130 points of the fall.

Alitalia ended L432 or 7.1 per cent higher at L6,474 after being suspended for excessive gains three times on the first day of the airline's capital increase.

Banca di Roma lost L175 to L3,574 and BCI was marked L508 down at L9,677; on Friday the two banks had denied they planned to merge. Weakness was seen elsewhere among banks with Banca Intesa L557 lower at L9,998 and Mediobanca L1,069 lower at L23,324.

Generali was lower, but still outperformed the market after Morgan Stanley rated the stock a strong buy. The shares eased L33 to L52,809.

PARIS wobbled lower with the CAC 40 index losing 44.92 to 3,945.31 after a renewed outbreak of Asian worries caught up with the heavyweight banking sector.

BNP retreated FFr16.50 to FFr499.50, CCF gave up FFr17.60 to FFr472 Société Générale came off FFr33 at FFr1,166, although combined turnover in the three shares was fairly modest at less than FFr900m.

Suez Lyonnaise des Eaux, off FFr46 at FFr1,014, also had to contend with the news that it planned to bid for the outstanding 37 per cent of Société Générale de Belgique.

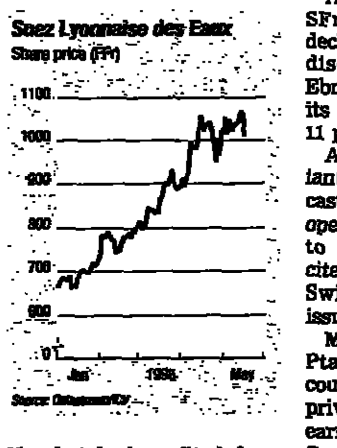
Canal Plus lost FFr29 at FFr1,165 after earnings downgrades for this year and next at JP Morgan.

Carrefour shrugged off recent weakness, adding FFr45 at FFr3,445. Saint Gobain improved FFr21 to FFr1,077 as investors warmed to Friday's news of plans to unravel cross-shareholdings with Générale des Eaux.

FRANKFURT gave ground, with investors preoccupied ahead of today's Federal Reserve open market committee meeting in the US and earnings figures due from four Dax companies. The Xetra Dax index lost 70.65 to 5,343.66.

BMW stood out among the carmakers with a fall of DM65.50 to DM1,941.50 amid unconfirmed reports the group planned to introduce its new luxury limousine.

BASF, among companies reporting first-quarter results today, picked up 50 pfg to DM80.70, while Bayer gave up 62 pfg to DM80.38 and Hoechst edged 20 pfg higher to DM80.18. Traders said that after Hoechst had profited from switching out of Bayer during the floor session, the reverse process developed in late Xetra trade.



AMSTERDAM met with stiffish selling, notably among internationals. The AEX index ended off 17.20 at 1,151.57.

Fortis Amev lost Fl 4.50 at Fl 120.40 as the bid for Generale Bank of Belgium finally went ahead. Philips fell Fl 6 to Fl 197.70 on weakness for US tech shares, and Heineken shed Fl2.90 to Fl 71.

KLM was a firm feature, adding 50 cents to Fl 76.60 ahead of tomorrow's results statement. Wolters Kluwer gained ground, too, rising Fl 3.80 to Fl 261.90 on news that the purchase of Waverly of the US had been finalised.

DSM showed resilience, easing a bare 10 cents to Fl 206.30 after an upgrade to market performer by Goldman Sachs.

ZURICH extended early losses to close 2 per cent lower as interest rate jitters returned ahead of today's US FOMC meeting.

The SMI index closed 148.0 lower at 7,371.4 with financial shares posting sharp losses on worries that US interest rates could be heading higher. UBS lost SFr66 to SFr2,505 and its merger partner, SBC, was marked SFr12 lower to SFr540. CS Group gave up SFr5.50 to SFr323.

Among the insurers, Zurich was down SFr12 at SFr901 in spite of news that it expects $400m in cost savings from a merger with the financial arm of BAT.

Shares of companies viewed as having a relatively high Asia exposure were also under pressure. ABB fell SFr74 to SFr2,397 and Ciba gave up SFr5.50 to SFr197.50.

Alusuisse fell SFr43 to SFr1,961 as the company declined to comment on the disclosure that Martin Ebner's BZ Group had raised its stake in the company to 11 per cent.

Against the trend, Clariant, which last week forecast double-digit growth in operating profit, rose SFr33 to SFr1,761. Dealers also cited rumours that a major Swiss bank was going to issue warrants on the stock.

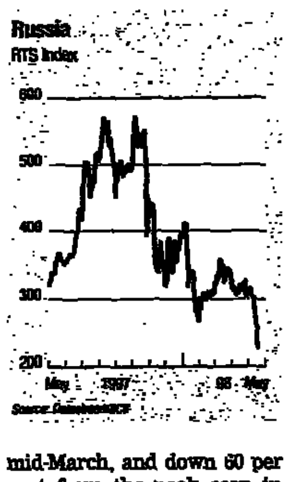
MADRID saw Endesa rise Pta40 to Pta3,550 as the countdown to next month's privatisation offer started in earnest. Yesterday was the first day for non-binding orders and the shares ended Pta40 higher at Pta3,550. The general index closed 2.03 lower at 855.71.

Written and edited by Michael Morgan, Jeffrey Brown, Peter Hall and Paul Gregan

Moscow plunges 11.8%

Panic selling of highly liquid stock by local investors sent MOSCOW plunging 11.8 per cent to its lowest level in 16 months. The RTS index, which lost almost 15 per cent last week, tumbled another 30.49 to 227.61.

This was 36.4 per cent below its high for the year in mid-March, and down 60 per cent from the peak seen in early October.



Fears of a rouble devaluation, denied by the authorities, prompted heavy selling by domestic operators as foreigners kept to the sidelines. Analysts said the continuing turmoil in Asia was evaporating confidence in emerging markets worldwide.

São Paulo falls sharply

Latin American centres were laid low in early trading by worries about Asia and a possible rise for US interest rates.

SAO PAULO supplied the biggest shocks, racking up a decline of 403 or 3.7 per cent to 10,503 on the Bovespa index by midsession.

Blue chips led the shake-out. Telebrás lost 4.3 per cent at R$127.80 and Petrobrás 4.1 per cent to R$244. Mining giant Vale do Rio Doce came off 6.6 per cent to R$24.10.

MEXICO CITY moved steadily lower in what dealers described as thin dealing volumes. "Concern about the trend of US rates, plus the shake-out in Brazil, is what is unsettling us today," said one broker. Telmex gave up 65 centavos to 21.65 pesos.

At midsession, the IPC index was off 76.75 or 1.6 per cent at 4,709.43.

CARACAS also ran into heavy selling. The IBC index was 163.53 or 2.4 per cent lower at 6,753.75 at midsession.

Johannesburg edges higher

SOUTH AFRICA

Shares in Johannesburg were little changed as the rand moved lower on the foreign exchanges and hopes for a cut in local interest rates faded. The all-share index closed 25.3 higher at 8,079.4. Industrials added 9.5 to 9,812.3 while golds edged 5.1 lower to 1,036.7.

Africa Life Assurance jumped 10 per cent to R61 ahead of an eagerly awaited results statement.

Resignation call cuts losses

ASIA PACIFIC

News that the parliamentary speaker had called on President Suharto to resign enabled JAKARTA to trim its losses late in the session, although the market still closed 4.2 per cent down.

Analysts commented that the market would have recovered more strongly had the announcement come earlier in the day.

THE DAY'S CHANGES

	% Change
Jakarta	-4.2
Karachi	-3.6
Bangkok	-3.3
Kuala Lumpur	-3.0
Singapore	-2.3
Hong Kong	-1.3
Sydney	-1.2
Manila	-0.2
Tokyo	+0.9
Bombay	+1.5
Seoul	+1.9

The composite index closed 17.02 lower at 388.92, up from a low of 384.10. Shares in companies controlled by the Suharto family remained under pressure.

Astra, the car group, lost Rp150 to Rp900 on speculation that Bob Hasan, chairman of Nusamba, Astra's main shareholder, could lose his place in the cabinet in a reshuffle.

TOKYO's benchmark Nikkei 225 average flirted with the 15,000 level before closing up nearly 1 per cent on the day, *writes Paul Abrahams.*

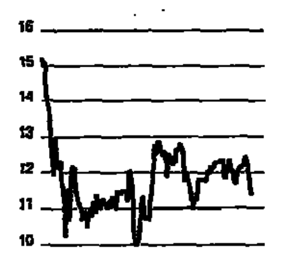
The index traded between 15,069.68 and 15,405.00 to close up 141.61 or 0.9 per cent at 15,384.7.

The recovery was not broadly based, however. The Topix index of all first-section shares rose only 2.24 or 0.19 per cent to 1,209.17. Volume was dull at just 320m shares. The momentum was down, with 554 stocks lower, 509 up and 188 unchanged.

Analysts said the market was supported by buying from public funds and some positive corporate news, including possible share buy-backs and a few unexpectedly good profits forecasts for the current year.

Companies announcing their intention to change their articles of association so they can buy back shares include Kaneka, a resin maker, Yamato Transport, and Intec, a computer service supplier. Their shares rose 3.7 per cent to Y668, 1 per cent to Y1,581, and 8.5 per cent to Y1,080.

Nikon, the electronics group, dropped 5 per cent after revealing a 50 per cent fall in net profits and the forecast of a further 75 per cent decline this year. The stock closed at Y1,007.



Takeda, the drugs group, fell Y90 to Y3,570 after it revealed it was withdrawing Avan, a treatment for Alzheimer's disease. The move follows concern by the health and welfare ministry about Avan's effectiveness.

Nissan Diesel, the object of speculation that it might be taken over by Daimler-Benz of Germany, fell Y15 to Y285 in heavy trading.

SYDNEY moved steeply lower in weak volume. Coca-Cola Amitil, which has a big Indonesian business base, fell 53 cents or 4.4 per cent to A$11.40. ANZ Bank lost 28 cents to A$10.60.

Telstra rose 8 cents to A$3.88 for a two-day advance of 5.5 per cent on press reports that the company was set to take a stake in global telecoms group WorldPartners.

The All Ordinaries index came off 32.5 at 2,739.3.

SINGAPORE fell on continued regional worries. The Straits Times index gave up 30.29 at 1,291.74. Turnover was thin and losers outpaced gainers eight to one.

Singapore Telecom was the most active stock, shedding 60 cents to S$2.41.

BANGKOK fell 12.22 to 357.21 on the SET index after a torrid session for the finance sector, which tumbled 12.7 per cent. Dhana Sian Finance fell Bt2.40 to Bt5.90.

HONG KONG was unnerved by lingering concerns about the situation in Indonesia and ahead of local unemployment figures due after the market closed.

The Hang Seng index fell 126.42 to 9,411.97 after hitting a low of 9,368.43. Turnover shrank to a quiet HK$4.9bn.

The heavily traded HSBC Holdings which accounted for nearly 23 per cent of total turnover and was responsible for 71.70 of the index's loss, dropped HK$5.50 to HK$197.50 on concerns over the group's exposure to Indonesia.

KUALA LUMPUR was marked down, tracking a weak ringgit, and the composite index finished 16.86 lower at 549.99.